

Whistlebrook Liquidity Modelling solution takes the pressure off C. Hoare & Co.



C. Hoare & Co., the UK's leading independent private bank, was founded by Richard Hoare in 1672, at the sign of the Golden Bottle in Cheapside, London. In 1690 he moved the business to new premises at 37 Fleet Street, still within the City of London, where the bank resides to this day. It is the sole survivor of the private deposit banks established in the 17th and 18th centuries, and remains wholly owned by the Hoare family.



Regulation precipitated by the UK's financial crisis has presented banks with onerous business intelligence requirements to evaluate and demonstrate their status. A key area is liquidity – essentially the ability of financial institutions to meet their payment obligations. C.Hoare and Co. tasked Whistlebrook with developing a modelling and reporting system to stress test the bank's liquidity against various market scenarios outlined by the Financial Services Authority (FSA). Whistlebrook developed a solution based on Analytics for Financial Institutions (ALFI®), a customisable business intelligence platform, enabling the bank to present rapid reporting on the bank's liquidity position, and to satisfy the FSA's compliance criteria.

Liquidity risk management needs robust controls

The recent financial crisis exposed weakness in liquidity risk controls across financial sectors and confirmed a need to establish more rigorous standards. Under the Financial Services Authority's (FSA) mandate, financial institutions are expected to establish and maintain enhanced systems and controls for managing liquidity risk, and to demonstrate liquidity status at any time, or given various market scenarios.

Depending on the type of financial institution, the FSA scheduled a phased switch-on for liquidity reporting beginning on 1 June 2010. FSA guidance comprehensively outlines compliance criteria but is not wholly prescriptive on methodology, for example regarding exactly how to model and report stress scenarios. This puts enormous pressure on firms, at a senior level, to ensure that their systems will stand up to FSA scrutiny.

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Richard Mumford
IT Project Manager
C.Hoare & Co

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"If changes were needed, Whistlebrook was very responsive to suggestions for enhancements and adjustments, and provided sensible flexibility."

However, according to Whistlebrook, the liquidity modelling and reporting systems employed by many financial institutions may fall short of FSA conditions. "A lot of firms will have had to implement a 'best guess' solution, due to complex requirements and a tight timeline," says Andy Hudders, Director at Whistlebrook. "Sourcing and manipulating the necessary data is a complex process, and failure to deliver accurate, timely reports could leave firms dangerously exposed."

ALFI® platform provides a flexible solution

C.Hoare and Co., the UK's leading independent private bank, initially engaged Whistlebrook in January 2010 to install its Analytics for Financial Institutions (ALFI®) system, providing Business Intelligence and data warehousing capability to populate regulatory reports. However, with the FSA's 1 June deadline for quantitative and reporting requirements approaching, C.Hoare challenged Whistlebrook to develop a liquidity modelling system capable of running the stress tests identified by the FSA.

Whistlebrook's ALFI® is a customisable business intelligence platform that gives retail banks, building societies, investment banks and other financial institutions a central, interactive solution for collating and analysing vital management information. It integrates with existing systems and can easily be customised and extended to fit precise requirements.

Richard Mumford, IT Project Manager at C.Hoare & Co., said: "Working with Whistlebrook, we interpreted the FSA requirements, for example what a liquidity modelling test should comprise, and they developed a flexible, easy to use system that runs the test scenarios and demonstrates how the bank would respond to them."

Automated modelling for liquidity status

Whistlebrook implemented the ALFI®LM module, an automated solution for liquidity modelling specifically designed to provide a single interactive, graphical, management information system. This standalone ALFI® module for liquidity modelling was developed in collaboration with Whistlebrook clients and is recognised by the FSA. It enables modelling of multiple liquidity-related scenarios, discreetly or in combination, including losses on treasury assets; loss of deposits and key customer types; interruptions to the payments system and counterparty failure; and loss of money market liquidity and market confidence.

The system has allowed C.Hoare to constantly remodel and rerun scenarios to show the impact of variations on the bank's liquidity position, which Mumford believes is something the FSA will want evidence of. "This compares very favourably to manual systems which would be resource-intensive and liable to inconsistencies."

Spreadsheets or paper-based systems for example are prone to inputting errors and lack the necessary auditing trails and drill-down capabilities. By comparison, ALFI® automatically extracts data from operational systems to give a single view of what's going on in the company, and provides granular analysis and the capability for daily reports, which the FSA could request in certain conditions.

Mumford says that another major plus point with ALFI® is being able to conduct reporting and modelling from the same data set. "Many other financial firms don't have this capability, which means doubling up database applications and creating a potential mismatch," he explains. "From an integrity viewpoint it's pretty fundamental, but it also makes a lot of sense in terms of effort and resource. ALFI® was also a lower cost solution than other vendors we considered in the project analysis phase, and it fitted well with our business model, system architecture and time schedule."

Whistlebrook

INSIGHT THROUGH INTELLIGENT SOLUTIONS

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Phased 'roll-out and review' meets tight timeline

The project team had to work on very tight timelines, populating ALFI® using Extract, Transform, Load (ETL) tools while simultaneously working on the liquidity modelling project. "We agreed a delivery sequence and schedule, with a phased roll-out of scenario solutions as they were completed," comments Mumford. "This enabled us to perform testing and review as we went. Delivery was always on time and any issues identified were turned around very quickly by Whistlebrook."

Mumford says that owing to the compressed schedule, there was an element of rapid joint-application development. "If changes were needed, Whistlebrook was very responsive to suggestions for enhancements and

adjustments, and provided sensible flexibility," he says. "Software houses will typically deliver to specification but often lack sufficient comprehension of the business requirement. Whistlebrook's understanding of the operational context and objectives was really appreciated by our financial team and was key to the project's success."

If institutions have issues or concerns about liquidity modelling and reporting, Whistlebrook is offering a free half-day consultancy to review existing systems and suggest any actions to meet FSA compliance. "ALFI® delivers a proven and flexible solution that is quick to implement and easy to use," says Hudders. "We completed the system for C.Hoare in six weeks, which included writing the application, so a four week timeline is very achievable."

About Whistlebrook

IT company Whistlebrook meets the growing demand for business information availability and quality with a range of packaged software and bespoke business intelligence solutions. Formed in 1997, the firm is an information management system specialist with an excellent reputation for delivering major IT projects in the financial and business intelligence markets, helping customers drive down costs and create high levels of business value. Whistlebrook is a Microsoft Gold Certified partner for business intelligence and data management solutions.



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