

MORS partners with IBSM Solutions to deliver ALM as a Service for BanCoppel



Established in 2006, BanCoppel S.A. operates as a commercial bank in Mexico and is part of Grupo Coppel, which is one of Mexico's largest department store chains catering to low and medium-income demographics. The group was founded in 1939 by Enrique Coppel Tamayo.

The banking unit received its certification as a bank by the Comisión Nacional Bancaria y de Valores (CNBV; the National Banking and Securities Commission), an independent agency of Mexico's Secretariat of Finance and Public Credit in 2007.

BanCoppel offers a wide variety of financial services products to its retail and SME customers through Grupo Coppel's existing network as well as a strong multi-channel platform including 1,167 branches and 1,206 ATMs. The bank's aim is to seek "to offer the low-income population the banking services that allow them to better manage their resources over time, that allow them to develop, better plan their future, face unforeseen events and reduce risks".

Internal Risk Management Requirement

Over the years, BanCoppel has grown rapidly in terms of its customer base and with growth, it became important for the bank to strengthen its internal risk management infrastructure. While the bank had credit risk and market risk management systems in place, it did not have balance sheet risk management and funds transfer pricing system to support **asset & liability management (ALM)** and profitability management.

The bank started with in-house attempts with limited resources that produced partial results with siloed solutions for interest rate risk, liquidity and profitability management. As the size and complexity of its balance sheet expanded and the uncertainty around the interest rate scenario increased, management decided to look for third party alternatives for the bank's ALM reporting.

While the bank's long term plans were to upgrade its existing risk management system and add relevant ALM modules, it would take Bancooppel at least a couple of years to complete the

implementation. Until then, the bank required a cost-effective and robust outsourced solution that could help the management with informed decision making around balance sheet positioning/hedging, liquidity management and product/unit level profitability management.

The bank hired Integrated Balance Sheet Management Solutions (IBSM), a specialist consulting firm that advises banks on areas related to asset-liability management, profitability analysis and performance measurement.

Karl Rubach, the Managing Director and founder of IBSM Solutions, has more than 20 years of international Treasury, Balance Sheet and Capital Management experience. His colleague, Guillermo Dominguez, Director Mexico, is based in Mexico City and also has more than 20 years of experience in the financial industry; as auditor, regulator, risk manager and consultant in finance, profitability, FTP, ALM, Corporate Governance, Operational Risk Management and Processes. He has been professor at ITAM (Mexico), and has published papers on Valuation Fundamentals for Financial Intermediaries using Funds Transfer Pricing and a Valuation Model that includes risk in cash flows with the Mexican Finance Executives Institute (IMEF), where he has been Vice president of the Technical Committee.

IBSM has an ALM-as-a-Service offering that provides an integrated view of interest rate risk, liquidity risk and product-level profitability (NII) contribution as determined through Funds Transfer Pricing (FTP). Powering the ALM-as-a-Service platform is MORS Software, a privately-owned, Helsinki, Finland-based specialist in ALM, Treasury and Liquidity Risk Management software solutions.

The core MORS solution was originally created in 1996, and was, during its early years, exclusively developed for the needs of Svenska Handelsbanken Markets. In 2006, MORS Software was established as an independent company and made the MORS Treasury ALM Solution available for all banks.

MORS now provides Balance Sheet Management, Liquidity Risk

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Management and Funds Transfer Price Management that is deployed on a cloud platform. In total, these modules form a Holistic Treasury ALM (asset & liability management) solution covering all transactions and balance sheet items throughout the entire bank.

Fast Deployment

The flexibility of the cloud-based platform allowed IBSM and MORS to configure and integrate the ALM-as-a Service solution for BanCoppel in just three months. The deployment went live in September 2019.

While the deployment time was short, the process involved meticulously reviewing the entire balance sheet, defining the risk inventory and product-level attributes that are relevant for interest rate and liquidity risk management.

Where available, the IBSM team leveraged internal MIS capabilities to produce transaction-level information for term products; and product/segment/channel level aggregated data for non-maturity products (e.g. credit cards, non-maturity deposits). This resulted in around one million positions covering the entire balance sheet. For other portfolios, the team leveraged other existing reports to produce the required data feeds.

On the bank-side, the project was supported by four members from the existing market risk management team with support from the IT/Operations area. One internal resource was tasked with generating the required data feeds and two resources provided by IBSM Solutions to configure, upload and model the different products/scenarios in the system. MORS Software provided remote technical support.

Creating a consistent data feed

As a managed service, system integration meant establishing a consistent data feed covering the entire balance sheet (e.g. loans, deposits, securities portfolio, derivative positions (banking book), other balances), mapping those positions into the system and establishing relevant control figures and procedures.

MORS Software provided the required flexibility to accommodate different sources to upload them into the system with a flexible chart of accounts

to accommodate client's reporting requirements and management practices. The advantage MORS provided is that it does not require one single data file containing all positions, which is often hard to produce.

Overall, the deployment was smooth with minimal roadblocks, especially, since the required customisation was low due to standard system modules being used, as well as standard implementation procedures being followed.

The critical aspects of the deployment involved establishing relevant parameters such as defining liquidity time horizons, balance sheet assumptions in terms of roll-over, assets and liability run-off, deposit Betas, relevant base curves, etc.

For BanCoppel, an outsourced model such as that provided by IBSM and MORS Software allowed access to a sophisticated ALM reporting solution without the need to acquire a license or hardware by the bank. The outsourced model also meant that there were minimal system changes required to be done by the bank internally. The deployment allowed BanCoppel to quickly obtain a complete understanding of its underlying interest rate and liquidity risk exposure, providing the analytical support for the Asset-Liability Committee (ALCO) to manage and control these risks and inform ALM positioning, financial and strategic planning.

The outsourced approach adopted by BanCoppel is an ideal low-risk and affordable alternative to an internal multi-year, resource-intensive ALM development project. The implementation sets an example for the other banks which still do not have an ALM reporting system within their organisation or are looking to upgrade their existing ALM tools, using a cost effective, easily deployable solution.

KEY FACTS

Bank: BanCoppel S.A.

Total Assets: MXN 74.3 billion (\$3.9 billion)

Headquarters: Mexico City

Supplier: MORS Software & IBSM Solutions

Solution: ALM as a Service