

# Is Outsourcing Risk Management Right for Your Credit Union?

**ALM | LIQUIDITY STRESS TESTING | BALANCE SHEET SCENARIO ANALYSIS**

Exploring the Benefits of  
Professional Risk Management Services

Catalyst Asset & Risk Management

## Introduction

Measuring and managing balance sheet risk is a critical process for any financial institution, including credit unions. It involves managing the risks that arise from the mismatch between assets and liabilities as well as liquidity risk, ensuring that the institution can meet its financial obligations while optimizing profitability.

As the financial landscape continues growing increasingly more complex, credit unions face numerous challenges in effectively managing their Asset Liability Management (ALM) and their Liquidity through Liquidity Stress Testing (LST). While historically, credit unions may have elected to have a staff member run their balance sheet through an ALM model, many credit unions are now looking to outsource these functions to a professional risk management provider.



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**There are several compelling reasons why a credit union should consider outsourcing their risk management modeling to a third-party professional ALM service firm:**

- Depth of expertise and specialized knowledge
- Access to advanced technologies and specialty tools
- Assurance of regulatory compliance
- Cost efficiency versus building in-house
- Enhanced risk management
- Unbiased perspective
- ...And more

## Expertise and specialization

Outsourcing ALM and liquidity stress testing to a professional service provider brings a level of expertise and specialization that is often difficult to achieve in-house. Provider staff members specialize in risk management and possess a deep understanding of market dynamics, regulatory requirements and risk management strategies.

The experience and specialization in various aspects of ALM, from interest rate risk and liquidity risk to capital adequacy and earnings stability, enables credit unions to enhance their risk management capabilities and make more informed financial decisions.

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## Access to advanced technology & tools

Risk Management service providers invest heavily in state-of-the-art technology and analytical tools to deliver accurate and timely insights. These tools are essential for modeling complex scenarios, forecasting financial outcomes and stress-testing the credit union's balance sheet under various conditions.

For many credit unions, developing and maintaining sophisticated models in-house can be prohibitively expensive and resource intensive. Using these tools and models well also requires specialized skill and continuous learning. Specialist firms not only have access to the most robust tool sets, but they understand how to get the best results from them as efficiently as possible, while also staying ahead of new developments and technologies entering the market. Outsourcing ALM allows credit unions to access cutting-edge tools and methodologies without many of the associated costs and complexities.

## Regulatory compliance

The regulatory environment for financial institutions is continually evolving, with increasing demands for transparency, accountability and compliance. Maintaining compliance with these regulations requires extensive knowledge and resources, which can be challenging for credit unions to manage internally.

Professional risk management service providers stay abreast of regulatory developments and ensure that their clients remain compliant with all applicable laws and standards. By

outsourcing ALM and liquidity modeling, credit unions can mitigate the risk of regulatory breaches and focus on their strategic goals with confidence.

## Cost efficiency

Cost efficiency is another significant advantage of outsourcing risk management. Building and maintaining a staff to run an in-house ALM model requires substantial investment in hiring, training and retaining skilled professionals often with minimal experienced redundancy. Additionally, the costs of acquiring and updating the necessary technology and software can be substantial.

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By outsourcing ALM, credit unions can convert these fixed costs into variable expenses, paying only for the services they need. This approach can lead to considerable savings and a more efficient allocation of resources.

## Renewed focus

While critical to the operation of any credit union, ALM and stress testing are not core to member service. Outsourcing balance sheet risk management allows credit unions to focus on their core competencies and strategic objectives, including attracting and retaining members and deploying new products that members are demanding.

Managing ALM and liquidity stress testing internally can be a time-consuming and complex task. By partnering with a professional risk management service provider, credit unions can offload the burden of ALM and liquidity management and concentrate on delivering exceptional member value while being confident their financial standing is solid and well understood.

## Enhanced risk management

Effective risk management is crucial for the financial stability and success of any credit union. Professional risk management service providers offer comprehensive risk management solutions tailored to the specific needs of credit unions. They continuously monitor market conditions, regulatory changes and economic trends to identify potential risks and opportunities. By outsourcing risk management, credit unions gain access to

sophisticated risk assessment and mitigation strategies, reducing their exposure to financial uncertainties and enhancing their resilience in the face of market fluctuations.

Third-party providers also add value to risk management activities because of their diverse client mix. By their very nature, these providers are exposed to many different scenarios than any one credit union, giving them additional insight into potential challenges and opportunities that a given credit union may experience in the future.

## Scalability and flexibility

Outsourcing risk management offers credit unions the scalability and flexibility to adapt to changing business needs and market conditions. As a credit union grows or faces new challenges, its ALM and liquidity management requirements may evolve. Similarly, credit unions that acquire or merge with other institutions can see their risk management needs change overnight, introducing even more complexity as the merging entities combine balance sheets, systems, member bases and more.

Professional risk management service providers can quickly scale their services to meet these new demands, providing tailored solutions that align with the credit union's objectives. This flexibility enables credit unions to respond more effectively to market opportunities and challenges, ensuring long-term financial stability and growth.

## Unbiased perspective

An external risk management service provider brings an objective, independent perspective to the credit union's risk management practices. Internal teams may be subject to biases or influenced by organizational politics, which can impact their decision-making processes. An independent provider can offer unbiased insights and recommendations, helping credit unions to identify blind spots and make more balanced, informed decisions.

## Continuous improvement & innovation

The financial industry is in a constant state of flux, with new risks, opportunities and technologies emerging regularly. Professional risk management service providers are at the forefront of these developments, continuously improving and innovating their services to stay ahead of the curve. By outsourcing ALM, credit unions can benefit from



the latest advancements in risk management, ensuring that their ALM practices remain robust and effective in a dynamic environment.

## The total cost of internal risk management

When comparing an external risk management solution to an internal solution, it's important to weigh all of the costs involved. An external provider will present a comprehensive and upfront pricing structure that is easy to compare to other external providers. While there are many intangibles that should be weighed in choosing an outside provider, comparing dollars and cents is not difficult. But comparing an external provider to an internally sourced risk management strategy is more difficult.

### **You should consider direct and indirect costs, including:**

- Staff costs for those directly involved in risk management
- Technology and tool costs for risk management systems
- IT costs for managing and maintaining technology and tools
- Ongoing training and continuing education costs for internal teams
- Additional management time needed to develop strategy and validate results
- Third-party data access costs
- External legal, accounting and finance specialist consulting
- Opportunity cost of focusing on risk management versus other priorities

## Choosing a provider

While there are many advantages to working with an independent professional risk management service provider, the choice of which service provider to use is at least as important as the choice to utilize one in the first place.

### **Consider these questions when deciding on a service provider:**

- Has the provider worked with institutions of a similar size & complexity recently?
- What tools and technologies are used by the provider?
- How many years of experience does the provider bring to the project?
- What level of staff and seniority will the provider dedicate to your project?
- What additional services are available from the provider?
- Can the provider help execute the strategy developed?

When choosing a risk management services provider, it's important to ensure the provider can meet all your needs and develop a strategy that suits your institution's particular goals. The price paid for the service is also important, but should be commensurate with the overall service package, experience and capabilities of the provider, ensuring a high level of value from the project.

## Conclusion

Outsourcing balance sheet risk management offers numerous benefits for credit unions, from access to specialized expertise and advanced technology to cost efficiency and enhanced risk management. By partnering with a professional risk management service provider, credit unions can focus on their core mission, improve their financial stability and navigate the complexities of the financial landscape with confidence. In an era of rapid change and increasing regulatory scrutiny, outsourcing ALM and liquidity stress testing is a strategic decision that can drive long-term success and growth for credit unions.

### WHY PARTNER WITH CATALYST ASSET MANAGEMENT & RISK MANAGEMENT SERVICES?

Catalyst has been providing ALM and Risk Management services to credit unions for nearly **40 years** and currently serves over **15%** of all credit unions – including many of the **largest** and **most complex** balance sheets in the country.

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Risk Management services	
ALM reporting packages	ALM integrity analysis
ALM model validation	Non-maturity deposit analysis
ALM model assumption review	Mortgage servicing rights analysis
Liquidity stress analysis	Capital stress testing

ALM service supplements	
Online "what-if" capability	Policy assistance
Analysis review	On-site visits
Fair value reporting	