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Mitigating Solvency Risk with Enhanced Treasury Management Oversight and Due Diligence

By Elisabeth da Silva, Michael Hayes, Kevin Keane, Jr., Stuart Kessler and Joe Marchese

There is no doubt that organizations today will now be devoting more time to understanding the financial health of the banks with which they have either a borrowing or depository relationship. Venture capital and private equity firms, along with other organizations, are putting added emphasis on reviewing their own treasury management policies and procedures in order to safeguard their capital.

A positive by-product of this enhanced treasury management oversight will be deeper due diligence of the bank's financial health, particularly its solvency. This additional scrutiny will likely result in many more requests for clarification and reassurance and, while we cannot predict the volume of these requests, we can recommend specific areas of concern that banks should address. Among them are reassessing liquidity to prepare for the unthinkable – an unexpected high volume of daily withdrawals – and communicating to customers that the bank is actively managing solvency risk and protecting systems, networks and technology to prevent cybercrime.

Now is the time for banks to undertake the following essential tasks.

Review the Upper Limit of Depositors' Immediate Redemption Requests

The current turmoil in the banking sector has demonstrated the unpredictability of depositor reaction and, as more and more people engage with social media, its power grows. Today, social media can spread "news" faster than it can be questioned, analyzed, verified or disproven. As a result, banks must prepare to respond to larger deposit redemptions, within a more urgent timeframe, by ensuring that the question, "Are we ready?" can be answered with the statement that, "Yes, we are prepared."

Develop a Crystal-Clear Document on Addressing Top Solvency Risks

The financial reporting and regulatory requirements with which banks must comply are lengthy and complex. Therefore, it's critical for banks to explain the major solvency risks they face and how they are managing these risks. Legal and risk management professionals may produce sizeable statements but disseminating a brief explanation of risk and related protections – written in clear, easy-to-understand language – will help reinforce customers' confidence in the ongoing relationship.

Perform "What-If" Analysis or Sensitivity Analysis

Sensitivity analysis adds depth and a level of credibility to a bank's financial modeling. This "stress test" is critical to identifying gaps that should be assessed and addressed. It's an important element in demonstrating to customers that the lender is sound, strong and solvent.

Understand Criminals Capitalize on Chaos

Banks have spent considerable time and effort on areas of vulnerability, such as fraud, cyberattacks, anti-money laundering (AML) and know your client (KYC) policies and procedures. Recent events illustrate the importance of continually examining, testing and updating these policies and procedures, augmenting and fortifying them, as warranted. Customers want – and deserve – to know that their banks are minimizing risk for them by maximizing protection against cybercriminals who thrive during periods of uncertainty.

Valuable Objective Support

The tasks described above are of vital importance – and they are often time-consuming and complicated. Securing the support of an objective, third-party treasury management professional is a wise and practical solution. A specialist's perspective can help reduce risk, strengthen controls and build confidence among customers, the bank's internal management team, senior leaders and Board.

Contact Us

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