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Understanding ALM

3 Reasons Why Junior Staff Should Understand ALM Reports

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Many articles have focused on the need to make sure that your credit union board of directors is up to speed on their understanding of Asset Liability Management (ALM) reports. However, another group that may greatly benefit from learning about ALM is your junior staff. Think about those staffers that do not regularly attend ALCO or board meetings. Are they familiar with what ALM is and how to interpret the reports? Do they understand the overall risk position of the credit union? ALM offers a great opportunity to expose staff to a broader picture of your institution.

Three reasons why mid-level staff should understand the ALM reports:

1. **Succession Planning**
   To get a full grasp on the overall risk profile of your credit union, staff should be able to understand the information that is being reviewed in the ALM reports. This is not to say that they have to become an expert on modeling balance sheets in various interest rate scenarios. However, they should be able to comprehend the reports that are given to them and understand the risks that your institution is facing. They should also be introduced to the assumptions that are built into the model and how that can impact the results.

   As your staff becomes more familiar with the reports and the modeling process, they can gain more perspective on how the different components of the balance sheet pose risk to the institution. Experience has shown that this is not always learned in one session. Having knowledge of ALM, whether you are a new employee or seasoned board member, does not always come easily. An introductory webinar may be a good start, but continued exposure is recommended to become familiar with the concepts and terminology over time.

2. **Getting Prepared for the Examiner**
   With the recent examiner focus on ALM profiles at the credit union, your staff can benefit by knowing that the potential of higher interest rates may be understood in the context of higher loan and deposit rates. However, the re-pricing risk faced by longer term investments and loans may be a new concept to some staff. Understanding this will help to explain why your credit union limits the amount of these longer loans and investments, despite their higher yields. Gaining the understanding of how the broader market environment impacts the balance sheet is another valuable lesson learned from greater ALM exposure.

3. **Connecting the Dots**
   When your staff learns more about an advanced topic such as ALM, they will broaden their skill set. ALM exposure offers the opportunity to view the credit union as a whole entity, rather than specific departments. For example, staff will be able to understand that a particular CD promotion is being implemented to offset some risk on the balance sheet, rather than just a random idea. Getting a younger staff member involved in the overall picture of the credit union will help them grow into the next generation of credit union management.

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