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Funding Liquidity Risk

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Motivation



FSA

BASEL III

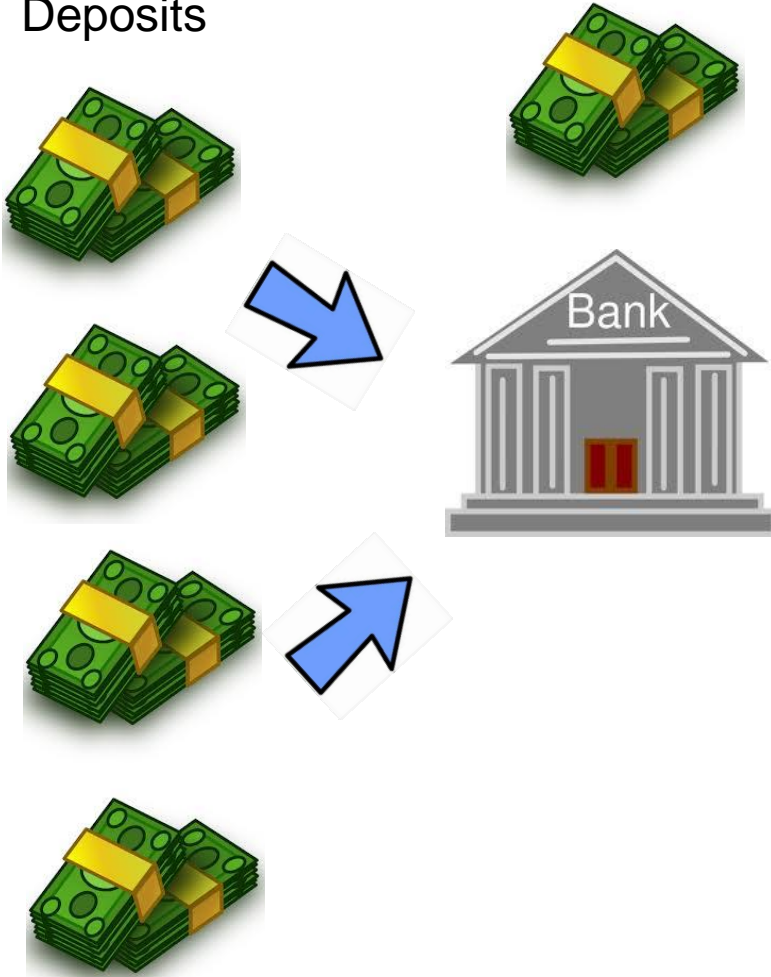


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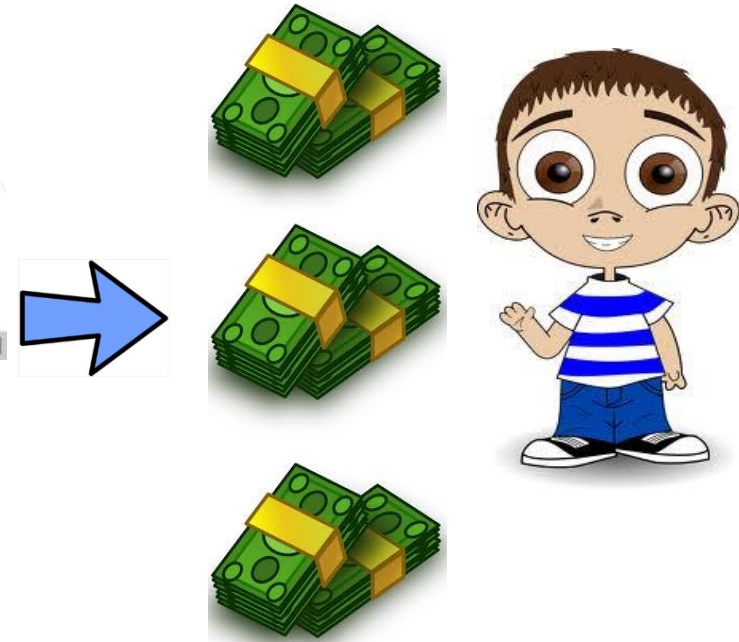
Funding Liquidity Risk



Deposits



Loans



Wholesale
funding

2.3%	248.36	4.58	85.36	74.38	745.3	10.28%	238
9.65%	989.24	4.58	85.36	85.36	22.3	0.30%	238
2.36%	545.32	5.36	44.45	88.33	81.4	4.25%	7
			76.76	7.35	24.3	8.68%	7
					88.9	2.38%	
1.20%	282.80	2.17	83.88	80.25	132.10	1.20%	
9.33%	256.36	2.78	56.39	74.36	745.3	8.33%	
6.35%	375.69	9.56	24.35	45.23	82.5	6.35%	
4.25%	248.36	4.58	85.36	85.36	81.4	4.25%	
5.36%	896.33	3.54	32.23	5.33	3.35	5.36%	
8.35%	896.33	7.63	44.45	2.55	6.35	8.35%	
2.56%	323.24	2.33	42.36	56.35	234.6		
1.23%	236.58	6.35	78.96	24.36	96.3		
6.3%	596.33	7.98	33.33	72.85	75.3		



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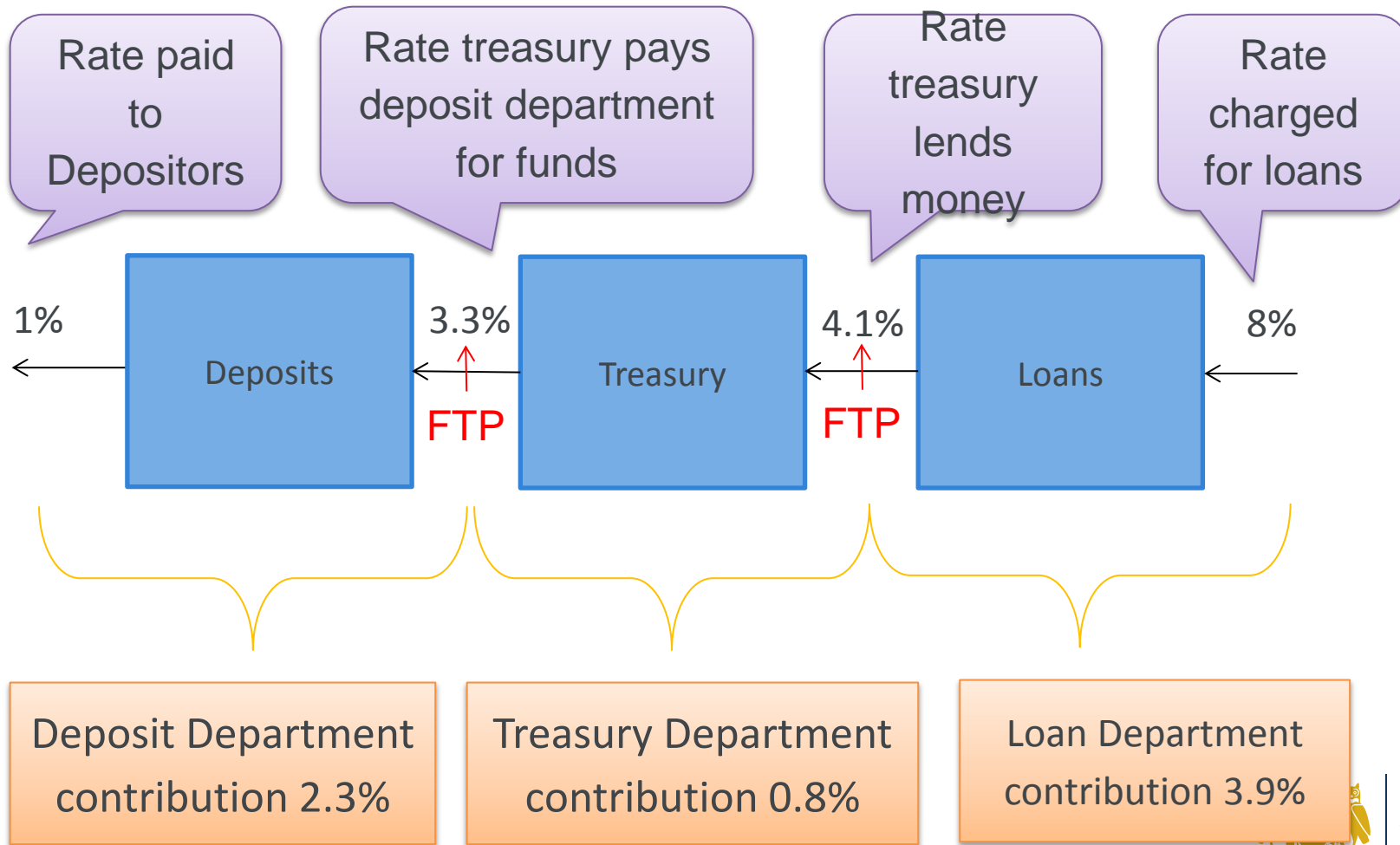
Fund Transfer Pricing (FTP)

Objectives

- Motivate profitable decisions in line with the bank's goals
- Allocate profits between different business units
- Transfer interest rate risk and funding liquidity risk to a separate centralised department
- Allow the business units to work independently from each other



FTP



FTP and Funding Liquidity Risk

Holistic Approach v Individual Business units

- In simple situations the holistic approach can produce similar results to the individual business using the FTP system
- FTP rates need to be set appropriately

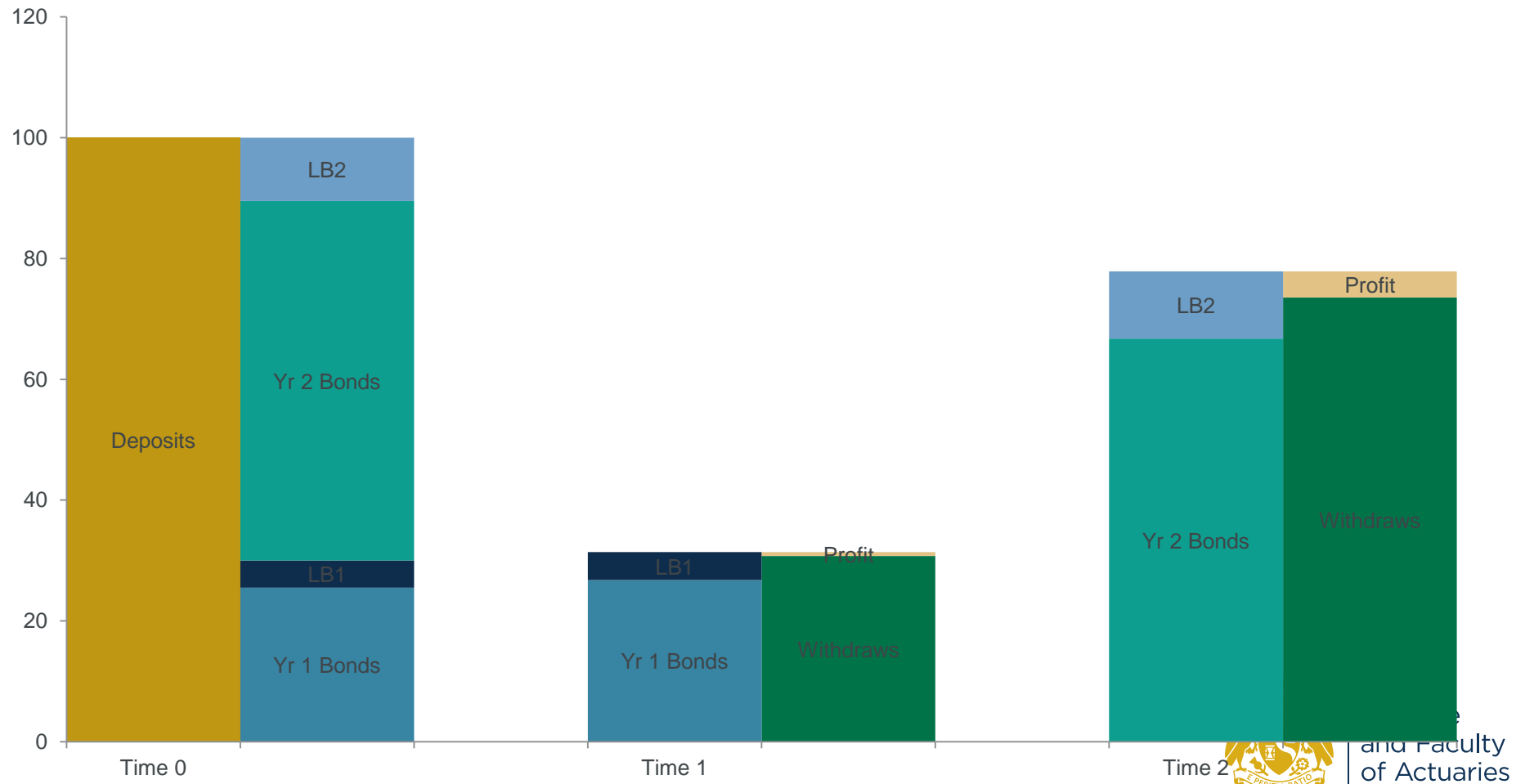
Multi-Period

- FTP can adapted to multi-period settings
- It is not perfect but does produce reasonable results and allows business units to operate at arms length



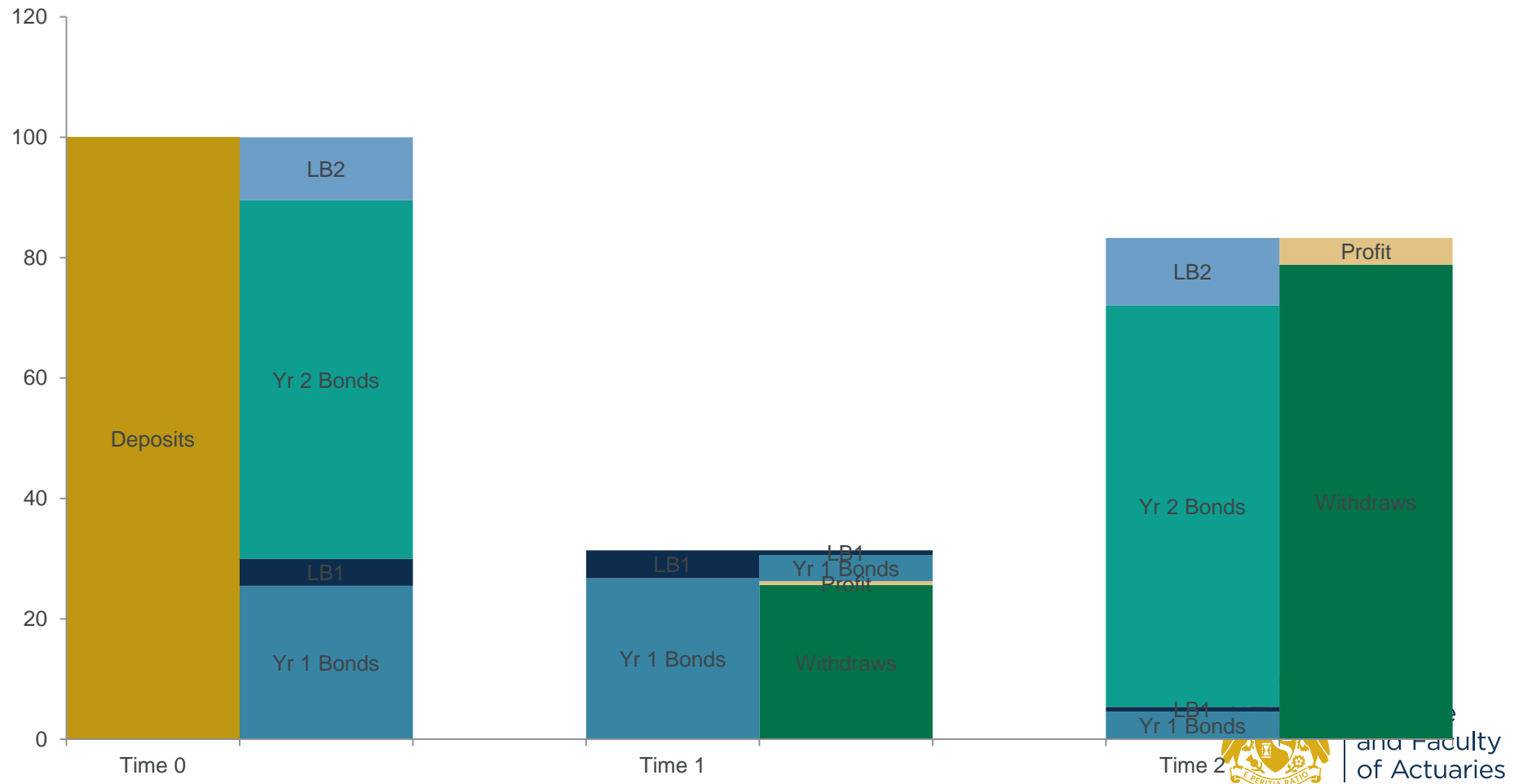
Multi-period Cashflows

Expected Cashflows



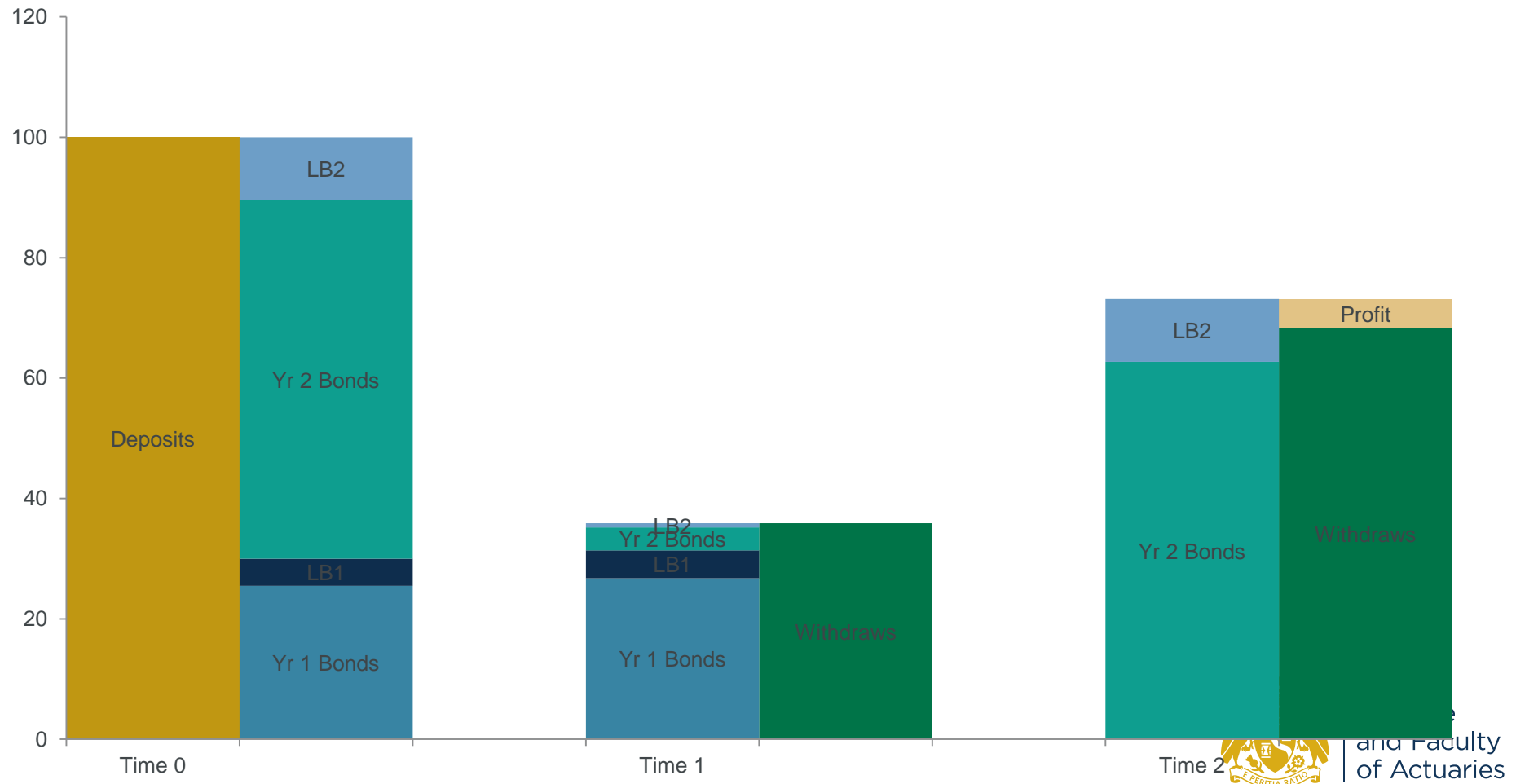
Multi-period Cashflows

Expected Cashflows



Multi-period Cashflows

Expected Cashflows



Conclusion

- Funding Liquidity Risk is important risk for the bank
- It can be included within FTP framework
- Can be used to maximise the bank's profits in a simple situation
- Multi-period situation FTP will produce reasonable results
- Can be used to help the bank to understand funding liquidity risk and ensure it is appropriately priced within their products

