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Staffing levels

The impact of ALM modeling

The recent online FMS Quick Poll we conducted on staffing levels in the finance and accounting functions generated a very large response, and the data will provide some solid benchmarks. In addition, the information regarding ALM models should provide some insights for institutions debating an "in house" vs. an "outsourced" approach to this increasingly important function.

Over 300 individuals responded to the poll, an excellent response. Eighty-one percent were from commercial banks, savings banks and savings and loans; and 19 percent from credit unions.

Exhibit I below indicates the level of staffing within the various institutional asset segments. The steady increase in number of FTEs as the asset size increases is perfectly logical and probably unremarkable to most. Remember, the FTE total for each group does not include the institution's CFO.

Keep in mind, the only metric collected is asset size, and not the business lines being supported, sophistication of the asset liability management function, public vs. private reporting requirements, etc. However, we believe the averages are still useful for you to benchmark where you are relative to your peers.

[In 2011] fifty seven percent ran their model in house, and forty three percent outsourced, almost the exact opposite of today's portrait, where forty two percent remain in house, and fifty eight percent outsource.

ALM modeling and staffing

The survey also explored the relationship between staff size and the conduct of an institution's ALM modeling process—that is, whether it is carried out in-house or outsourced.

We conducted a similar survey on in-house versus outsourcing of ALM modeling in 2011 and the results of that survey, which generated 243 responses, were very different. Then, fifty seven percent ran their model in house, and forty three percent outsourced, almost the exact opposite of today's portrait, where forty two percent remain in house, and fifty eight percent outsource.

This year, we were also interested in ascertaining the difference in staffing levels between the two groups of institutions. Thus, Exhibit II isolates the staff differential in the finance and accounting functions between the two approaches. We didn't know what to expect, but believe that some institutions may be surprised by the relatively small difference. Only about one-fourth of a FTE for in-house versus outsource staffing exists in the smallest asset segment ($100 - $249 million). Some may have been expecting a larger difference.

In the largest asset segment ($1 - $4.99 billion), it's not surprising to see a full FTE difference since the in-house modeling function is likely much more sophisticated, comprehensive and far more time consuming.

This year's results displaying the increase in outsourcing match anecdotal impressions we have formed over the last few years. The reasons could be increased staff demands within the finance area, or possibly, the increased sophistication of ALM models, or, perhaps, the more sophisticated models not being financially justified for the smaller institution.

Indeed, as pointed out by Mark Haberland, Managing Director of

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Darling Consulting Group, who has seen the evolution of ALM modeling firsthand, the trend could simply be caused by the significant benefits of outsourcing. Reacting to the survey, Haberland indicated: "Shifting from in-house to an outsourced option succeeds in freeing up management-level staffing from the burden of building the increasingly complex model and allowing them to focus more attention on putting the results to use at ALCO.

The CFO still has the burden of keeping up with all regulatory requirements and developing balance sheet strategies to discuss at ALCO to manage risk while maintaining/increasing earnings. If the outsourced option is inclusive of a consultative relationship (not investment advisory, but balance sheet advisory), this is an additional benefit to the CFO, as not only is the cumbersome modeling and regulatory compliance being prepared, but guidance as to how to put the information to strategic benefit is worth far more to the institution than just the ¼ FTE saved."

Likewise, Deb Donaldson, President/CEO of Alpha Numeric Consulting, LLC in Hoschton, Georgia, a veteran ALM consultant and modeling expert echoes several of Haberland's points. "With the increased demands on simulation modeling", she says," It does not surprise me to see the trend towards outsourcing." Among several factors she mentions to explain the shift are:

- The term "out-sourced" now describes far more comprehensive services than in the earliest years when "out-sourcing" meant simply providing call report data or access to a vendor, using standardized assumptions, and receiving a plain vanilla set of outputs.
- Outsourced modeling was once frowned upon by the regulators, but now enjoys a much better reputation for industry expertise
- Outsourced models are often now part of a modular system that allows for efficiencies for data sharing or use in other models, including those for liquidity, profitability, pricing, prepayments and others. Such synergies eliminate the need for multiple datasets, mitigate the risk of errors that often accompany the manipulation of data for formatting into different systems, allow for the storage of historical data, and facilitate trend analysis.

And finally, Donaldson makes an interesting comment about the changing personnel of the industry. She says: ""I believe that as the demographics of banking change, those of us who cut our teeth on the earliest installations of the model and have grown through the incremental production and analytical requirements are moving toward retirement age. The younger bankers may not have been in the industry long enough yet to develop a depth and breadth of experience commensurate with the current simulation requirements."

The full results of our survey and the demographics of the respondents are available on our web site in the "Research" section under Member Services. FMU

EXHIBIT I: Finance and Accounting Function Staffing Levels

	In-house Model		Outsourced Model	
	Number of Institutions	Average number of Staff	Number of Institutions	Average Number of Staff
Less than $100 M	3	1.00	8	1.88
$101 - $149 M	15	2.40	36	2.17
$250 - $499 M	37	3.95	45	3.51
$500 - $999 M	36	5.94	46	5.26
$1 - $4.99 B	32*	8.97	33*	7.94

Source: Financial Managers Society, August 2014

EXHIBIT II: FTE Difference Between In-house Models and Outsourced

	$101 - $249 Million	$250 - $499 Million	$500 - $999 Million	$1 - $4.99 Billion
In-house	2.40	3.95	5.94	8.97
Outsourced	2.17	3.51	5.27	7.94
	.23 FTE	.44 FTE	.67 FTE	1.03 FTE

Source: Financial Managers Society, August 2014