

Transform your ALCO from a cost center to a profit center

Are lenders and retail bankers lining up to join your financial institution's asset liability committee (ALCO)?

If the idea seems preposterous, it could be that your ALCO could benefit from a new approach, according to Matt Pieniazek, president of [Darling Consulting Group](#).

Pieniazek, who will lead the session "How Effective ALCOs Help Shape Lending Strategy" during the upcoming Sageworks 2018 Lending & Risk Summit, said if that's the case, your institution's ALCO could also be leaving valuable earnings on the table.

Valuable strategy incubator

More bankers and lenders want to join the ALCO when leaders are able to transform the committee from a backward-looking, reporting-focused cost center to a group that is developing important profit-driving strategies for the entire financial institution, Pieniazek said in a recent interview.

"With well-functioning ALCOs, everyone wants to be on that committee," he said.

During the Sageworks Summit, Pieniazek will share how an ALCO can be a valuable incubator for effective lending strategies, in particular. He will provide examples of how working on the ALCO provides opportunities to look at lending through different lenses, which in turn, can make good lenders great.

"A lot of lenders don't get excited about attending ALCO meetings because they don't feel that it benefits them greatly, and that's because there's no real focus on strategy" during many existing ALCO meetings, he said.

The Sageworks 2018 Lending & Risk Summit will include consultative presentations, panels and peer roundtables on topics related to the full life of the loan and offering actionable insights that apply across the institution. The three-day conference is Sept. 24-26 in Chicago. Registration fees increase after Aug. 24.

ALCOs are responsible for the coordinated oversight of balance sheet risk management, but they often tend to be more reporting mechanisms than anything else -- performing "regulatory, check-the-box type stuff," Pieniazek said. "In effect, the ALCO ends up being focused on a reporting of the risk profile and as a result, it's just a cost center -- it provides no value other than the reporting information. Most ALCOs stop where most value begins, which is strategy development."

However, with the right expectations established of the ALCO and its members and with open-minded attendees and the facilitation of discussion, meetings can be transformed, he said. "You can migrate the focus and dialogue to be 10 to 15 percent of an update on where we are from risk and 80 to 90 percent focused on strategy," Pieniazek said. "All of a sudden, you engage and incent and get people excited from all around the bank."

Making good lenders great

Pieniazek has seen excellent lending strategies suggested by non-lenders and similarly, great retail strategies offered up by lenders. He will use examples during his Summit presentation to show various lending-related opportunities, including identifying capacity for fixed rate lending, tailoring appropriate funding structures in support of lending and pre-empting commercial refinancing risk. He will also discuss the impact of changes in derivatives accounting on fixed-rate lending strategy.

"What I like to say is that the most successful ALCOs are those where people check their egos at the door and attend with open minds," he said. "If you facilitate an environment of collaboration on loan product structure & pricing, investment strategy, deposit pricing & products, and overall capital management strategy -- that is where ALCOs really differentiate themselves."

Pieniazek will provide advice on facilitating such an environment during his session at the summit. See the rest of the agenda and more information on the Sageworks Lending & Risk Summit [here](#).