Rethinking asset/liability management: From static snapshots to strategic forecasting.

Summary: Forward-thinking institutions are reshaping ALM by integrating dynamic forecasting, AI, and behavioral deposit data to stay competitive in increasingly volatile markets.

By Dave Koch, Director of Advisory Services at Abrigo

Asset/liability management (ALM) has often been viewed through the lens of regulatory compliance: a necessary part of banking but a reactive reporting function that provides a static view for assessing the balance sheet.

But today, with market volatility, evolving depositor behavior, and technology advancing faster than ever, the institutions that win will treat ALM as a dynamic, strategic tool. They will use ALM tools to account for growth trajectories, competitive pressures, and market volatility.

Leaders should be asking:

- Are our ALM models supporting our forecasted revenue strategy?
- Does our policy framework align with future-oriented balance sheet goals?

Strategic ALM means designing policies and tools that reflect where your institution wants to be, not just where it's been. The shift means rethinking traditional approaches and embracing tools like artificial intelligence (AI), behavioral data, and real-time modeling.

Here's what's changing and what banking executives need to be thinking about next.

From static reporting to real-time insight

Traditional ALM has often been a snapshot exercise. You gather your data, apply a handful of rate shock scenarios, and generate a report showing whether your earnings or capital levels fall within policy limits, assuming that the balance sheet size and mix do not change.

But banking doesn't stand still, and neither do interest rates. Static balance sheet models don't capture the story unfolding in real time. During this most recent run-up

in interest rates, bankers saw the revival of time deposits. Most banks experienced a movement out of lower-cost non-maturity deposits into higher-cost, shorter-duration time deposits, altering their interest rate risk positions and overall margin levels.

Ask any banker 10 years ago how deposits behave, and you'd probably hear some variation of "Our customers are loyal" or "They're not rate-sensitive." But of course, that analysis has to consider the market environment. Overall interest rate levels were low, offering few opportunities to invest with low risk. Combine the higher market interest rates with a much more tech-savvy depositor, and old behaviors become less relevant. Today's depositor is more informed and more mobile. They're shopping rates online. They're moving money faster. They're reacting to economic signals in ways we didn't always see coming.

Institutions must monitor:

- Deposit decay trends
- Rate sensitivity and beta behavior
- Overall depositor behaviors, like changes in ACH levels or inbound/outbound transactions
- Total depositor relationships and migration trends
- Liquidity pressures from short-term funding

Understanding and forecasting these variables is key to preserving margins and stability.

That means old rules of thumb, like assuming 5% monthly runoff on a savings product or using a single beta for all money market accounts, are increasingly unreliable. We need models that reflect actual behavior.

Dynamic ALM modeling is gaining ground because financial institutions need dynamic information. When you integrate live data like transaction patterns, market shifts, and deposit-flow changes, you start to see your balance sheet the way it actually behaves. You can adjust forecasts as funding costs shift and test strategies based on what's likely, not just what's regulatory.

Tools for dynamic asset/liability management

The Savings & Loan crisis of the 1980s taught bankers the dangers of duration mismatches between long-term assets and short-term deposits. But many forget

that the mismatch occurred because of new product innovation that caused disintermediation.

Today's market is experiencing similar disruption with cryptocurrency investing, fintech native products, etc., undermining traditional bank offerings. Yet the underlying risks remain, and the core mathematics of ALM haven't changed drastically. In addition, technology, market conditions, and regulation have evolved, transforming how institutions apply ALM insights.

Cloud-native ALM platforms allow:

- Real-time collaboration across departments
- Faster scenario planning and stress testing
- Streamlined regulatory updates and vendor oversight

This technological shift is particularly crucial for banks and credit unions with thinner capital cushions or tighter earnings margins.

Artificial intelligence and machine learning are also enhancing traditional ALM models by injecting behavioral intelligence into forecasts. These tools help banks improve deposit segmentation based on tenure, rate sensitivity, and cross-product usage. They model prepayment behaviors with greater accuracy, and they identify early warning signs of liquidity risk or account churn.

For example, understanding whether loan prepayments stem from death, refinancing, or competitive attrition enables better risk modeling and pricing strategies.

AI doesn't replace institutional knowledge or sound judgment. It needs oversight, transparency, and clear governance, especially when used in models that affect balance sheet decisions. In that context, all of these insights that technology can support will feed into better stress testing, more accurate interest expense forecasting, and stronger liquidity planning.

ALM for a unified view of risks

Speaking of stress testing, many institutions still rely on parallel rate shocks (e.g., ±200 basis points) as the primary tool for interest rate risk. Those tests are useful, but they're only a starting point.

Today's risks are more complex and intertwined. A credible stress test should account for macroeconomic scenarios (e.g., inflation surges, regional CRE downturns), customer behavior (early loan payoffs, deposit churn), and funding strategy impacts (brokered funding roll-off or wholesale advances repricing).

Dynamic asset/liability management modeling enables institutions to layer those variables into multi-factor stress scenarios. And when AI is applied, it's possible to simulate how customers might behave based on historical crisis data or real-time signals, such as what we learned from recent bank failures or COVID-driven deposit flows.

Modern ALM must integrate interest rate, credit, and liquidity risk into a unified risk framework. That way, you're not looking at interest rates in one silo, equity risk in a separate silo, and credit risk in yet another. The movement should be to bring this all together.

Institutions really should move beyond regulatory "check-the-box" exercises and adopt scenario-based planning that reflects their unique outlook. That does not mean we abandon the measures of the past, but rather we understand their role in the analysis. Interest rate shocks are like a front-line test for a doctor to assess your health. If these tests produce elevated levels, then further testing is done on a deeper level to determine the course of action.

Here are my recommended components of robust ALM analysis:

- Realistic stress tests using macroeconomic and local data
- Dynamic simulations reflecting actual customer behavior
- More robust reliance on economic-based interest rate projections
- Enhanced policy thresholds based on business strategy, not just compliance limits

The key to stability: Deposit Funding Stability Index (FSI)

One way institutions are making ALM more actionable is by conducting a more robust analysis of their deposit base. One example of this is a Funding Stability Index (FSI). Creating an FSI helps institutions in quantifying deposit and funding risk. Simple analysis of a sector of deposits, like savings or checking accounts, misses the point of customer relationships.

An FSI looks at overall depositor levels through time and blends key elements to assign a score to each depositor. Key factors in a scoring matrix might include:

- Overall level of deposit volatility
- Rate sensitivity and beta
- Account age and tenure
- Product engagement
- Concentration risk

A metric like this helps prioritize reliable funding relationships and align pricing strategies with long-term stability. Instead of offering a flat CD rate to everyone, for example, you might prioritize funding sources that bring stability to your balance sheet. It's also a useful metric to inform funds transfer pricing strategies or incentive structures for the frontline.

Moving from compliance to strategy

The best ALM programs today aren't just checking boxes. They're guiding decisions. They're helping executives answer questions like:

- Can we afford to grow loans at this pace based on funding stability?
- What's our margin outlook if rates flatten or invert?
- Are we overexposed to short-term CD rollovers?
- What areas of existing depositor relationships do we have an opportunity to expand?
- What's our liquidity runway under realistic stress?

These aren't theoretical questions. They're day-to-day decisions that impact growth, profitability, and risk posture. ALM should be a core input into strategic planning, pricing discussions, capital allocation, and even conversations at the branch level.

Start with what you can control

If your models still assume all deposits behave the same, it's time to revisit them. If your stress tests don't account for behavioral or macroeconomic variables, that's a red flag. And if your institution isn't using AI in at least some aspect of ALM (prepayment forecasting, deposit modeling, rate simulations), you may be falling behind.

The future of ALM isn't about forecasting perfection. It's about agility, alignment, and better-informed decisions because you're asking the right questions. And with the right tools, ALM becomes more than a risk function; it becomes a competitive advantage.

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Additional Resources

Webinar: Scenario planning for liquidity and financial strength

Webinar: Modeling deposits to enhance ALM resilience

Whitepaper: Liquidity stress testing: Designing appropriate liquidity stress scenarios

Whitepaper: Core deposit duration analysis: Depositor age or historical behavior

Podcast: Why core deposit studies matter