BANK ANALYSIS

CAMELS – Management Quality

Management quality describes the capability of the board of directors and management, to identify, assess, and control risks and to ensure a safe and efficient operation in compliance with laws and regulations.

The management of a financial institution is generally evaluated in terms of capital adequacy, asset quality, earnings and profitability, liquidity and risk sensitivity ratings. In addition, performance evaluation will include compliance with set norms, ability to plan and react to changing circumstances, technical competence, leadership and administrative ability.

Needless to say, management is considered to be the single most important element within the Camels rating system, it is the key factor in a bank's success. Whilst there are some quantitative benchmarks one could follow to assess a bank´s management quality, most of the individual assessment parameters will have to be qualitative.

On the one hand, management – appointed by the board – is responsible for drafting a strategy and implementing it. Success will subsequently be measured upon whether an anticipated financial performance with a view to create shareholder value was delivered.

The other major focus is in this regards is on corporate governance standards and their implementation. To start with, appropriate internal systems and controls have to be installed and on the basis of these operations monitored: A fully integrated information system is therefore key.

Regular audits or record keeping are further elements to proper management, next to staff development and training as well as succession or emergency backup planning.

Needless to say that the ownership structure will have a profound impact on a vast set of governance-related issues: Whilst for example shareholder participation and support by a sovereign may be an important mitigating factor in confronting already occurring or anticipated financial constraints of a bank, issues such as political interference, the potential violation of checks and balances or of arms-length agreements may all emerge as serious issues. Also, the extension or restructuring of loans for non-commercial reasons to shareholder- or bank-related entities is a particular thorny issue which can not only be observed in emerging markets. Linked with this is the whole area of how a bank deals with emerging conflict of interests.

Adequate management compensation schemes are an important tool to align the implementation of a well-defined strategy. Whereby, again, frequently qualitative features will have to be judged in assessing a management´s quality. Ideally, such would also address the potential issue of golden parachutes or indemnification payments. – Excessive compensations in the banking industry has been an ongoing discussion item since the financial crisis of 2008.

Not least legal liabilities of directors may also – even only as a preventive tool – play a role in ensuring, at least basic, management quality. In general, directors and other corporate officers of a bank may be held responsible and personally liable for reasons of, such as, a breach of trust or negligence.

MANAGEMENT QUALITY

TOTAL ASSET GROWTH RATE
LOAN GROWTH RATE
EARNING GROWTH RATE
LOAN | DEPOSITS
NET INCOME | # EMPLOYEES