

CAMELS – Management Quality

Management quality describes the talent and capability of a bank's board of directors and executive management to identify, assess, and control risks whilst ensuring safe and efficient operations in compliance with laws and regulations.

A financial institution's management performance can be evaluated in terms of capital adequacy, asset quality, earnings and profitability, liquidity and risk sensitivity ratings. In addition, though, performance evaluation will also include aspects such as compliance with norms set, ability to plan and react to changing circumstances, technical competence, leadership, maintaining ethical standards or administrative ability.

Management is considered the single most important element within the Camels rating system, it is the key factor in contributing to a bank's success. Whilst the Camels framework foremost consists of quantitative benchmarks, the majority of parameters a management will be judged against are of qualitative nature. However, ultimately success will tend to be interpreted upon whether anticipated financial performance with a view to create shareholder value was delivered.

Management – appointed by the board – is responsible for drafting a bank's strategy and implementing it. Further, though, the other major focus is on corporate governance standards and their implementation. Therefore, appropriate internal systems and controls have to be installed and on the basis of these operations monitored: In this context, a fully integrated information system is key. Regular audits or record keeping are additional elements to proper management, next to staff development and

training as well as succession or emergency backup planning.

Whereby, a bank's ownership structure will have a profound impact on a vast set of governance-related issues. Whilst, for instance, shareholder participation and support by a sovereign may be an important mitigating factor in confronting imminent or already occurring crisis-related financial constraints, concerns related to – among others - political interference, potential violation of checks and balances or of arms-length agreements may all emerge as serious issues. Also, the issuance 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.

Adequate management compensation schemes are an important tool to align the implementation of a well-defined strategy. Whereby, again, qualitative aspects will come into play. In regards to financial institutions, aspects of a successful implementation of, for instance, a responsible growth strategy accompanied by risk mitigation jointly enhancing a bank's sustainability would need to be broken down to tasks. Achieving set targets would deserve a mix of variable, equity-linked and / or deferred compensation. Whereas, ideally, also potential issues such as golden parachutes or indemnification payments would be indirectly addressed as well as having equity-linked compensation components vested at least medium-term.

Not least, legal liabilities of directors may also – even only as a preventive tool – play a role in ensuring, at least basic, management quality. Whereas, directors and other corporate officers of a bank may be held responsible and be 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

LOANS | DEPOSITS

NET INCOME | NUMBER OF EMPLOYEES

COPYRIGHT www.christianschopper.com - DC

For more concepts click on:



Corporate Finance Concepts

Christian Schopper



COPYRIGHT www.christianschopper.com - DO NOT COPY OR PASTE