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CAMELSS RATING SYSTEM IN BANKS

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Abstract:
Financial analysis of bank operations is one of the most important areas of economic work. Balance sheet analysis allows to determine the state of liquidity, profitability and riskiness of individual banking operations, as well as set the specialization and the importance of individual banks or groups in the banking system.

Keywords: Capital adequacy, asset quality, management, earnings, liquidity, sensibility to risk.

Today, the Analytical Center for Financial Information has an improved version of the methodology for rating the reliability of banks, which uses elements of the "CAMELS" system and offers a number of international reporting forms that provide access to additional information on such evaluation criteria as asset quality, analysis of the bank's liquid positions, the structure and quality of the bank's income, as well as its management and strategy.

Word CAMEL(S) is aggregate of capital letter of essential components

- C (capital adequacy) the capital adequacy ratios that determine the size of the Bank's equity to secure investors, and the actual amount of capital required;
- A (asset quality) - asset quality indicators that determine the degree of "repayment" of assets and off-balance sheet items, as well as the financial impact of problem loans;
- M (management) - indicators for assessing the quality of management (management) of the bank's work, its policies, compliance with laws and regulations;
- E (earnings) – indicators of profitability or profitability in terms of its sufficiency for the future growth of the bank;
- L (liquidity) - liquidity indicators that determine whether the bank is sufficiently liquid to meet ordinary and completely unexpected obligations.
- S (sensibility to risk) The indicator was introduced on January 1, 1997. This indicator includes an assessment of market risks (currency, portfolio, interest rate, price, etc.), as well as an assessment of their management system.

In the United States, the three main banking supervisory agencies - the Federal Reserve, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation - initially used their own systems to assess the health of commercial banks. Since 1978, there has been an agreement reached by these institutions on the standardization of approaches to assessing the reliability of banks. So the CAMELS system was established abroad.

The CAMELS system includes all the most important components of the bank's sustainability, which are evaluated by bank auditors. Although the CAMELS rating system is a standardized method for evaluating the performance of banks, its effectiveness depends on the skill and objectivity of the analysts who evaluate banks, since the analysis is based on the results of an on-site supervisory review. Only a part of the CAMELS indicators can be determined on the basis of the bank's external reporting.

A clear positive point is that the provisions of the CAMELS methodology have been adapted to the conditions, but rather to the most significant problems of the Russian economy. Thus, the third direction of the bank's financial stability assessment includes a group of indicators for assessing the quality of bank management: - transparency of the ownership structure (sufficient amount of disclosed information about the bank's ownership structure; availability of information about insiders – persons who have exclusive data and connections and have a significant influence on the decisions of the bank's management bodies; the significance of the influence on the bank's management of residents of offshore zones); - organization of a risk management system, including control over the size of the currency position; - organization of an internal control service, including a system for countering the legalization of illegal income and the financing of terrorism. This group of indicators for assessing the quality of bank management has a clear similarity with some parameters of the CAMELS system, including the indicators:

- "internal control and audit»;
- "risks of insider transactions"
- "authority, leadership and responsibility"
- "compliance with the law".

In the CAMELS interpretation, the main functions of capital are:

- ensuring an adequate growth base (for example, if less capital is needed for conservative activities, then for activities with an increased share of risky loans-the same level of capital is no longer sufficient);
- absorption of possible losses (of course, income allows you to absorb current losses, but they may not be enough in the long term);
- protection of non-guaranteed depositors and creditors in the event of liquidation (that is, the ability to secure amounts in excess of the limits of the Federal Deposit Insurance Corporation).

The assessment of the quality of management of banks can vary in the widest ranges up to alternative ones, depending on who performs this assessment, their interests, tasks, public positioning and other characteristics.
So, in this capacity are:

- legislative and executive authorities;
- banking supervision and regulation;
- political parties;
- public organizations;
- social spheres;
- local self-government and public environment;
- banking associations;
- specialized information and analytical agencies;
- internal organizational structure of the bank;
- customers of the Bank.

Before calculating the capital, it is necessary to determine the composition of the capital.
The indicators used to evaluate bank management are divided into a number of groups:

- direct and indirect;
- quantitative and qualitative (including social);
- objective and subjective;
- formalized and non-formalized (expert, variable);
- scores and ratings;
- absolute and relative.

CAMELS implements the following criteria for the analysis and evaluation of bank management.

1. Performance results: - implementation of banking policy targets, when the level and quality of management is assessed on the basis of key financial, operational, and social indicators. First of all, banks with good management are required to have sufficient capital, good asset quality, optimal profits and an adequate level of liquidity.

2. Competence, leadership, abilities: - professionalism and competence of the staff in technical matters, leadership, administrative abilities, executive ability, according to the place in the hierarchy of the organizational structure of the bank.

3. Соблюдение законодательства: - compliance with the requirements of general, criminal legislation and regulations and restrictions of banking supervision in the optimal framework.

4. Planning abilities:

- awareness of the need for planning as an integral element of management, the desire and ability to make real plans that take into account changes in the environment (real and potential now and in the future), new operating conditions.

5. The adequacy of the internal banking policies:

- compliance with the principles and priorities implemented in the work of the staff, preferences, restrictions and prohibitions formulated by the internal policy of the bank.

6. Adequate response to the powers of banking supervision:

- measures taken in accordance with the requirements and recommendations based on the results of Central Bank audits, audits and other segments of the management level of the banking management environment.

7. Usefulness:

- the ability and willingness to meet not only their own interests, but also the needs of the banking services of the country as a whole, significant social groups, government programs, and the region, public organizations, and the local environment in which the bank operates.

8. Internal control and information:

- the availability and clarity of the internal control system and information support for all hierarchical levels of the bank's staff, the purposefulness and effectiveness of this system.

9. Independence and responsibility:

- the tendency of management and leading employees to take on issues related to their competence and to be responsible; the ability to conduct business independently.

10. Success:

– the desire of the staff to maximize your personal and professional potential in the promotion of the administrative hierarchy; the provision of such opportunities and the approval of such aspirations.

11. Continuity:

– the commitment of management to implement personnel policies (educational programs, training and retraining of personnel) to ensure the continuity of banking management, availability of substitutes.

12. Ability to respond to changes in the market environment:

- information, organizational, technical and professional capabilities of the bank's management to conduct an active economic policy or a policy of active action in relation to changes in the environment and aggressive factors.

Due to a number of advantages, it seems to us that the possible popularity of the method of remote assessment of the bank's financial position is real, namely: the possibility of ongoing monitoring of such important positions as, for example, instant liquidity; the possibility of comparing banks with each other using a uniform wide database of detailed data that is easily processed electronically, etc. The effectiveness of its application depends on the quality of the reporting data provided. Therefore, the Analytical Center for Financial Information is deeply engaged in the problems of drawing up data submission forms, clear instructions for filling them out, as well as creating a system for cross-checking their reliability.

The results of the crisis and the needs of everyday banking practice have shown that today is the time to move from a formal rating and "private" internal analysis to a reasonable remote analysis of the bank's financial condition, from an "instant photo" of the bank's position at the time of analysis (without assessing the potential risks and those management systems that are necessary for the bank to establish risk control in a dynamic and mobile environment: policies and practices that lead to credit problems in the present or promise to arise in the future), recommendations to strengthen the functioning systems in the bank, acting as a catalyst for changing the fundamental ways of doing business by the bank.

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