The Adoption Of The Camel Rating System By Financial Institutions In The Saarc Region

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Abstract
“The South Asian Association for Regional Cooperation”, commonly referred to “SAARC”, is a governments-initiated, multinational organization in South Asia. The name, when translated literally, means “South Asian Association for Regional Cooperation.” This organization is formally known by its acronym, SAARC. The name of this organization is directly derived from the phrase “South Asian Cooperation.” All of the countries included in that list – “Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, and Pakistan” - constitute the membership of this group. In addition, “Sri Lanka, Bhutan and Nepal” included are also Participants in this group. The “South Asian Association for Regional Cooperation and Financial Inclusion” “(SAARCFINANCE) Network” was founded with the objective of boosting Individual Capacity of nations to communicate with one another and work together on matters pertaining to macroeconomic policy. In nations of SAARC region, the process of evaluating the creditworthiness of long-standing organizations like as commercial banks is still in its infancy. This research was conducted with the intention of determining whether or not the CAMEL ratio methodology helps in figuring out the quality of bank loans in the SAARC region. This inquiry was carried out with the intention of making progress in the direction of this goal.

Key words: CAMEL Rating, SAARC Nations, Banking, Credit Rating, Economy.

INTRODUCTION

“South Asian countries” have joined forces to form a geopolitical union & regional intergovernmental body they call “South Asian Association for Regional Cooperation”, or SAARC. This coalition of nations is also known as “South Asian Association for Regional Cooperation.” This association's name originates from the literal translation of its mission, which is “South Asian Association for Regional Cooperation.” It is anticipated that the “South Asian Association for Regional Cooperation (SAARC)” would have to take the buck for 4.47 trillion U.S. dollars of the global economy, 2.11 percent of the land area of the globe, and 5.21 percent of the population of the world in the year 2021. Dhaka was chosen as the first location for the “South Asian Association for Regional Cooperation (SAARC)” headquarters on December 8th, 1985. It was possible to draw a conclusion. The administrative headquarters of the organization are now located in the city of Kathmandu, which is located in the nation of Nepal. The founding members of this group have as their main goal the promotion of regional economic growth and social harmony. After being pushed back for another year, the “South Asian Free Trade Area (SAFTA)” started spreading to other countries in 2007. The “South Asian Association for Regional Cooperation (SAARC)” has maintained its observer status at the United Nations and forged strong relations with other international organizations, notably the European Union. Despite this, the organisation has remained dormant for a long time owing to the geopolitical dispute involving India & Pakistan and the situation in Afghanistan. The stress has been rising steadily for a considerable amount of time. As a direct consequence of this circumstance, India collaborates with its neighbours to the east in an organization known as BIMSTEC.

The “Central Bank Governors and Finance Secretaries of the South Asian Association for Regional Cooperation (SAARC)” got together on September 9, 1998, in order to develop a regional network that would later be known as SAARCFINANCE (“Network of Central Bank Governors and Finance Secretaries of the SAARC Region”). This meeting was held in order to create SAARCFINANCE (“Network of Central Bank Governors and Finance Secretaries of the SAARC Region”). The organization was formally acknowledged as a permanent SAARC entity during the 11th SAARC Summit, which took place in Kathmandu, Nepal in January of 2002. This recognition took place throughout the course of the meeting. The “South Asian Association for Regional Cooperation and Financial Inclusion (SAARCFINANCE)” Network was established with the goal of enhancing member countries' capabilities to collaborate and share information about topics of macroeconomic policy. Despite this, the SAARCFINANCE Network has vowed to accomplish the following lofty objectives within the next five years.

- To foster an environment conducive to cooperation efforts among the different institutions, employees from the central banks and finance ministries of SAARC member states will routinely travel to one another to share information. This will assist to create a climate that encourages SAARC member nations to maintain their participation in the organization.
- As a means of figuring out how far one set of banking rules and regulations is similar to another set, we will compare and contrast a variety of local banking rules and regulations from across the world.
- One of the aims is to adopt a method that is more efficient when it comes to processing payments, and another is to increase monetary and economic cooperation in the SAARC area.
- The member states of the SAARC organization will be discussing ways to increase cooperation and information sharing study of economics is a policy at this meeting.
- Research into the region is particularly encouraged so that the effects of recent changes in international finance may be better understood. The “International Monetary Fund (IMF) the World Bank”, & other international lending organizations are examples of recent innovations that repercussions on the structure of the financial system.
- Maintain a vigilant vigil on ongoing initiatives to restructure the global monetary and financial system and work for a unified SAARC stance on the matter.
- To the extent that it is feasible to do so, the purpose of the liberalization of financial services is to create globally common policies, goals, and standard operating methods.

The professionals who work in the finance sectors of SAARC member nations' ministries of finance, central banks & the rest of the banking industry will be the focus of this initiative, with the intention of improving their economic and monetary literacy as a whole.

The study's principal objective is to map the regional system of financial institutions headquartered in SAARC that are concerned with problems pertaining to monetary policy, exchange rate reforms, bank supervision, and capital markets. In addition, study's goal is to assess how well the CAMEL scoring system works in financial institutions that are headquartered in the SAARC region. If and when more study is undertaken on the issues stated above that are of economic and monetary importance, it will be to the advantage of all of the SAARC states.

CAMEL RATING

Organizations all over the globe, financial & non-financial, rely on the findings of “international credit rating evaluation systems” to gain a sense of how their lenders compare to those of other enterprises operating in the market. This is true whether the organizations in question are financial or not. In addition, worldwide credit ratings act as important forums for the validation of secret data held by financial institutions located all over the world. The SAARC nations have just recently begun the practice of evaluating the creditworthiness of commercial banks and other types of companies. The SAARC area was research question & its primary objective was to investigate whether or not CAMEL ratios are effective when calculating the intensity of quality of bank loans offered to clients in that region. The research set out to assess significance of CAMEL ratios using actual data. The variables of the study were collected using a method known as time series research, and the data for the study came from yearly reports submitted by banks between the years 2009 and 2019. This study relied only on findings from previous studies with time series. It has been discovered that a number of characteristics, such as liquidity, earnings capacity, and success of an organization depends heavily on its managerial competence and its access to sufficient finance credit ratings of banks located within the SAARC region. According to the supplemental findings of the research, financial evaluations in SAARC region are carried out with a lower number of standards and fewer indicators than their global equivalents. Overall, the evaluations for each bank were positive, demonstrating excellent basic accuracy while leaving space for development (a rating average of '2'); nevertheless, certain banks did considerably better in ratings all the way through the whole ten year period that was looked at every three months. If local systems are to provide an evaluation of local enterprises that is consistent with global standards, they should implement credit rating evaluation procedures that are reflective of global norms, as found in the study. This is essential for regional infrastructure to provide a rating that is in line with global standards. Because of this, regional frameworks would be able to conduct corporate reviews in accordance with worldwide standards. The objective of this exercise is to evaluate and contrast different regional companies based on international criteria. It is very necessary for the financial institutions of a country to be in compliance with “international credit rating standards” so that Government meets the standards of foreign credit rating organizations.

“International credit rating procedures” are used for this review by international organizations & institutions in order to evaluate financial & non-financial businesses that provide these entities with loans and assign those evaluations. With this information at hand, companies and organizations will be able to evaluate which of their borrowers have the highest potential to repay their loans. The individual records that are kept by banks all over the globe are required to be verified, and credit rating organizations on a global scale play a vital role as centres for this process. Free access is also provided to the services provided by major international credit rating organizations such as Moody's, Standard & Poor's, and Fitch. However, in order to determine whether or not a firm is creditworthy, international agencies consider a very wide variety of elements. The support that an organization receives from its members, the company's capitalization and assets, the company's exposure to number of aspects that go into determining an organization's risk profile, including market risk, profitability, and liquidity. Generally referred to as “External Credit Evaluations Institutions (ECAIs)”, credit rating organizations and regulatory agencies charged with the responsibility of monitoring credit practices fall under this category. Banks and other financial organizations must depend on the credit evaluation that is supplied by ECAIs when assessing the proportional weight that needs to be given the various credit risks. When national regulators examine these ECAIs, they frequently discover that they meet the requirements for regulatory capital.

The ratings that these organizations offer to issuers (businesses that obtain capital by issuing securities such as bonds or debentures) help to enhance the confidence of borrowers in issuers. These ratings are based on scales that measure an issuer's competence, competency, and stability in managing its finances. Borrowers base their trust in issuers on these scales. “Issuers” are the companies within the framework of securities generate and distribute debt instruments such as bonds and debentures to the investing public with the intention of obtaining capital through these transactions. The ratios and statistics of a company's finances that are reviewed by financial institutions have the greatest potential to influence ratings, followed by corporate governance, which takes into consideration corporate governance, and then macroeconomic variables. Ratings, according to some detractors of credit rating systems, are polluted by bias and may reflect gloomy opinions about firms and governments held by investors and the general public. These critics say that ratings are affected by prejudice. People have the opinion that credit ratings are unfair and that they are a reflection of the harsh views that exist in society. They assert that the scores they've received are evidence that their feelings are shared by others and support their assertion. Even if credit rating methods do give helpful insights, many individuals feel that the ratings are skewed in some way, which is why they are opposed to the procedures. Since the agency's initial international credit rating evaluations were issued to CRDB & NMB in 2018, financial institutions in the '2' SAARC region and their respective governments have gotten unsatisfactory rating ratings from Moody's. This includes both the financial institutions themselves as well as their respective governments. The CRDB & the NMB were the first to display these markers. As a result of this reality, Moody's has given a B2 negative rating to a large number of banks, regulators, and governments of the nations in the SAARC area that host these institutions. This rating is for the governments of the nations in which the various financial institutions are headquartered, as well as the individual financial institutions themselves. The choice that Moody’s made provides a poor credit score to meet with strong opposition and criticism from a diverse spectrum of financial institutions. These groups maintain that the rating agency was not provided with a comprehensive briefing and does not take into consideration the challenges that are presented by unstable regimes. The decision by Moody's to assign a negative credit rating has been met with criticism from a wide variety of financial institutions, including banks & other monitoring institutions.

CAMEL RATING MODEL

The CAMEL method assigns a value between 1 and 5 to each of the six factors to be considered, with 5 being the most crucial. Each factor is also given a score using an objective scale that takes into account the state of the economy at the time of the assessment. Several possible outcomes are compared to this score. The researcher's methodology for this particular study relied on a rating technique that was at its core a CAMEL-based ratio analysis.

Rating Key Signification

Rank Order	Evaluation Intervals	Score Interpretation and Analysis of Ratings
Rating 1	1.0 – 1.4	Potent: without defect; requiring no oversight from higher-ups.
Rating 2	1.6 – 2.4	To be satisfying, anything has to have a sturdy framework but yet have a little, repairable fault.
Rating 3	2.6 – 3.4	Fair: (warning) if not fixed, this cluster of problems may rapidly deteriorate into the watch category. More focus is required in the “Watch” section.
Rating 4	3.6 – 4.4	At best, chances of success are marginal. If extreme weakness is not addressed, it might threaten the bank's long-term viability. Must be watched closely.
Rating 5	4.6 – 5.0	Disappointing: (there are several glaring problems). Possible failure is close at hand. Being subjected to intensive scrutiny or direct orders to cease all activity.

DISCUSSION

To arrive at these results, we account for the commonalities in local & international credit rating evaluation, the CAMEL ratings of the selected commercial banks, and the effect of the CAMEL ratios on credit ratings. The study's findings & conclusions rely on that analysis. The international recommended minimum is 10.5%, while the local system in CAR has established a higher norm of 12%. Although the liquidity ratio benchmark in both the domestic and international systems is 60%, the liquidity ratio of 25% or higher is used in international reporting. Across both the domestic and international systems, the liquidity ratio norm is set at 60%. This is because foreign media outlets prioritize short-term profitability above long-term stability. Right now, 20% is where the national average is at. There was a difference between worldwide (5%, >10% respectively) and local benchmarks for regulatory criterion on the grade of the assets & earning potential. The baseline for international criteria was 5%, whereas in the home region it was >10%. This happened because perspectives from other nations were used to create standards for worldwide regulatory needs. When compared to commercial banks in other SAARC countries, those in these countries receive higher ratings in SAARC credit rating assessment rankings because they adhere to stricter criteria in how they do business. This is because commercial banks in these nations often have higher credit ratings.

In spite of this, BOT has safeguards in place to protect the financial system from the ongoing COVID-19 epidemic. Minimum capital in banks lowered from 7% to 6%, discount rates down from 7% to 5%, and minimum capital in treasury bills lowered from 40% to 20%. Furthermore, the metric only applied to the aforementioned segments of the banking industry and did not account for CAMEL ratios over a longer time frame. This was a major flaw in the system. It would be very challenging for the financial industry to address danger if the COVID-19 virus persisted for an extended period of time, since this could cause more businesses to file for bankruptcy in the real economy. Because of this, fixing the liquidity problems that affect entire actual economies is not a simple matter. Credit risk, commercial activity risk, foreign exchange risk, and operational risk are further examples of such concerns. There are a few SAARC financial institutions that received a perfect score of 1, indicating that they have abundant resources in the form of both capital and liquid assets. Asset quality, income capability, and management quality were all rated as “2s,” signifying that they were mostly solid with a few easily rectifiable deficiencies. It was also generally acknowledged that the quality of management was “2s.” Multiple financial institutions came to the same unfavourable conclusion about the asset's quality: a score of 5 indicated extreme insufficiency.

Some banks were in better shape than others with regard to their liquidity, while others fared better in terms of the quality of their assets, their earnings potential, and how well they are being managed. Undoubtedly, some financial institutions were in far better health than others. Some banks can improve their capitalization levels, asset quality, and other metrics. profits potential, and managerial competence. If we look at the industry as a whole, we find that the great majority of financial institutions have good enough credit ratings. It is crucial to keep CAMEL ratios under control and within the right limits in order to maintain a good credit rating at all times. Using the CAMEL criterion, it was determined that a firm's creditworthiness is significantly affected by its capital availability, profits potential, management quality, and liquidity (p0.05). Prospective earnings had a likelihood value of 0.0236, competent management had a value of 0.000, and sufficient liquidity had a value of 0.000. The probability value for expected profits was 0.000, whereas the likelihood value for having enough funds was 0.0073. Banks in the SAARC region may have serious difficulties as a result of the credit score, even if asset quality was just a marginal factor. Ample resources, prospective profits, competent leadership and ample cash flow are all areas that might use improvement. The quality of the assets may have had no bearing on the ranking, either.

CONCLUSION

It is impossible to exaggerate the significance of credit rating organizations to expansion of contemporary economy. These agencies are essential to grow modern economy. Many Credit rating organizations are relied on by both financial and non-financial companies to provide impartial assessments of their performance. who buy their bonds. The objective is to convince a bigger number of potential customers to make a purchase. The objective is to raise the number of international purchasers who invest in real estate in the country itself. It was concluded from the investigation that nations that make up SAARC have an urgent requirement to set up a reliable “credit rating system”. This means that the responsibility for establishing and enforcing rules and standards relevant to credit ratings falls on the shoulders of financial institutions, in addition to the task of credit rating itself.

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