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Banking Management Control

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I. Introduction

Banking management control appears to be a changing function, in line with the important changes, both strategic and organisational, that have taken place in this sector. Over the past decade, the banking landscape has been steadily rescinding under the combined effects of changes in the overall management of groups associated with a more competitive environmenthighly regulated; introduction of new information and communication technologies; involving the introduction of new services; the emergence of new players and diversification in terms of offer of the product.

Moreover further to financial scandals, in crisises and in failures which shook the banking world these last years, regulation imposed a strengthening of plans of control internal of the establishments. The development of these implements is an answer to a request expressed at the same time by the prudent standardisers; national and transnational regulators, rating agencies and financial analysts.

All these changes drew away a mutation of the jobs of the bank. So the systems of management control of banks evolved to answer both requirements of the regulation frame and strategical and organizational evolutions, allowing the banking establishments to pilot their performance better. In this context, tools for monitoring and steering operational and strategic actions are being developed, transposed for some of the industrial sector (ABC method, cost calculations and variance monitoring, dashboards, benchmarking techniques

other specific to the banking sector (monitoring of intermediation margins, banking net income), it is clear that the banking world has continued to evolve extremely rapidly in this field, bringing it up to date with the most successful practices and methods.

For most banks, management control now plays a key role, it enables institutions to acquire means for calculating profitability, monitoring performance, and an organisation in responsibility centres, profit centre and cost centre, and provides managers and operators with relevant, timely and quality information to improve, restore or maintain acceptable levels of economic performance.

Specific features of Banking Management Control

In search of the optimal positioning of their activities, banks join industry in the need to measure their instantaneous and predictive profitability.

If there was a time when industry was at the forefront of management control, It is clear that the banking world has continued to evolve extremely rapidly in this field, bringing it up to date with the most successful practices and methods.

Management control was introduced more late in the banking and financial sector than in industrial enterprises. This delay is explained by the limitation of competition which has long marked the banking sector but also by the regulatory framework which remains an important feature of banking and financial activities But for about 20 years now, the environment of the profession has been disrupted, at the pace of the progressive deregulation of the sector that has allowed the emergence of competition between institutions, The European Commission has also made a number of proposals to the Council. Margins contracted, profitability weakened and risks increased. Alongside this new competitive environment, new products have been created, particularly in financial activities, products that are particularly innovative and complex and require rapid adaptation capabilities. Finally, during the same period, an international “re-regulation” was introduced with the adoption of new prudential ratios such as the Cooke ratio.

In this rapidly changing environment, management control has developed strongly in banks and financial institutions. The delay in relation to industrial enterprises has gradually been reduced so that the most advanced bank management control systems can be considered as having reached the standards of the best management.

For most banks, management control now plays a key role. It has gone from being a secondary function to being a competitive advantage for establishments which have means for calculating profitability, monitoring performance, and an organisation in responsibility centres and business lines. There is no longer any certainty that any activity mechanically generates revenue with a positive result and only a high-performance management control system can enable managers to arbitrate and manage portfolios increasingly complex activities.

Managers and operators, at all levels, are constantly asked to improve, restore or maintain acceptable levels of economic performance. To do this, they need relevant, timely and quality information.

It is the role of management control to provide it.

Management control is therefore responsible for measuring profitability. A profitability that is increasingly difficult to measure given the diversity of products and possible transactions between a bank and its customers. However, it is an obligation to ensure the health of the banking institution. Thus, this measure of profitability cannot be made only in retrospect; but, in the same perspective as the management control was given, it must also be made, above all, in a forward-looking view.

Evolution of the banking business line and tools

Management control is located at the interface of the strategic approach and operational management. It is a system for assessing responsibilities and improving performance.

It was not until the financial liberalisation which began in the late sixties that this concern emerged that the banks were more interested in management control than the other companies. During the 1970s, some French banks developed a management control function, while others failed to do so, which in the mid-1980sTwenty-ten led to a very contrasting situation between banks with integrated and efficient management control and banks with embryonic or even non-existent management control. The supervisory authorities deplored this state of affairs incompatible with the strengthening of the internal control regulation according to the decree of 3 November 2014.The Banking Commission in a White Paper entitled profitability of banking activities, in 1998, informs banks of improvements to their control procedures to ensure that they comply with regulatory requirements. In fact, management control makes it possible to answer questions that every banker asks himself to base his development strategy as: What is the cost of such operation? What are the most cost-effective activities? What resources are allocated to a new activity and at what cost? What is the profitability of an agency?

In order to carry out the tasks assigned to it, management control endeavours to develop instruments for measuring the profitability of activities as well as to design steering tools.

Management control practices in the bank

Management control is more difficult to introduce in banks than in industry because of the very nature of banking activity. There are also a number of methodological problems which are not always easy to resolve. Certain characteristics of banking activity explain the difficulties encountered in setting up the management control function. The bank is a multi-product service provider, because the universal bank offers its customers a range that includes hundreds of products, of a very different nature from one product to another.

The banking activity is carried out within a complex structure, this complexity is reflected on the one hand by the fact that there are many bodies not directly responsible for banking operations: economic and financial studies services, legal affairs and litigation, all back offices for client and securities transactions. This makes fixed and indirect most of what we have called overhead. On the other hand, the network bank often manages a large number of sales outlets, agencies, which are spread across the national territory and abroad. In addition the banking activity gives rise to related products (the consumption of a product implies those of other products), these situations are frequently encountered in the bank with the accounts and savings plans-housing which usually gives rise to the granting of a credit or even packages which assemble a whole range of products.

For the management controller, the banking product allows to meet a need therefore to a request of a client and its service presupposes the completion of a whole chain of transactions. But the multiplicity of banking products implies a classification: Products having capital as a medium, such as loans, deposits, securities issued or purchased. These products, arising from the financial intermediation function of the bank, traditional or market intermediation, are much more defined in relation to capital borrowed or lent, therefore amounts, maturities and risks only in relation to the flow of administrative operations and require adequate profitability analyses; and the provision of services such as the delivery of a cheque to the cashing or the execution of an order of stock exchange for which the chain of administrative transactions matters more than the amount.

Similarly, the independence between products is used to circumvent the disadvantages of related products. Finally, it is essential to establish a classification by broad category of banking products (loans, deposits and savings, means of payment, securities-related transactions, provident benefits and other services)

Services such as cashing a cheque or

The complexity of the banking activity, which covers different business lines, products, customers, sales outlets, etc. obliges management control to a high degree of adaptability in order to respond to this diversity. Profitability analyses are thus carried out by profit centre as well as by product, customer or business line, according to users' requests.

Most decisions made by a bank operator, whether in an agency or a trading room, increase risk. Steering systems, and dashboards, are generally more focused on activities and performance than on risks. But the risk dimension is increasingly present with the integration of risk monitoring indicators in the dashboards. The implementation of management control raises questions about the objectives pursued and the framework within which the analyses are carried out, and it also implies that the bank has a real management information system.

This respect, the objectives of the MC can be specified with reference to the two major aspects of management control, the measurement of performance and the development of a steering system. By seeking the best allocation of resources, an enterprise transforms resources into results. Management control is therefore responsible for providing managers with performance indicators that assess management effectiveness. These indicators are necessary in order to facilitate business strategy decision-making, to monitor the bank's achievements and to compare them systematically with the objectives, through reporting tools such as dashboards.

Steering an organization is at the same time setting the course, equipping itself with resources and providing regulations that ensure that objectives and means are matched. Since steering cannot be blind, it relies on the management information system and on tools such as budget management, forecasting management or risk control that are linked to internal control.

Total core tasks for a bank, the performance of which involves a structured function that maintains close relationships with other components such as accounting, asset-liability management or internal audit.

II. Overview of the banking system in Morocco

The internal and external context of banking institutions is now changing and evolving. In the following we will present the developments related to the regulatory arrangements, as well as the strategic changes of the banking institutions imposed by the changes in their competitive environment.

Evolution of the regulatory framework for credit institutions:

Since 2006 the Moroccan banking sector has embarked on a series of reforms that have resulted in a overhaul of the banking law, directed towards the liberalization and modernization of the sector (liberalization of rates, deregulation of banking, etc.).

In this context, the Banking Law of 1967, revised in 1993, was reformed for the implementation of a new law no. 34-03 on credit institutions and similar bodies, promulgated by Dahir 1-05-178 of 15 Moharrem 1427 (14 February 2006). This new law aims to strengthen the powers of Bank Al-Maghrib, giving it more independence, consolidating its regulations and supporting its supervisory and supervisory role. To this end, the central bank is now authorised to grant or withdraw authorisations, or to oppose the appointment of persons who do not fulfil the necessary conditions in the administrative or management bodies of credit institutions. At the same time, Bank Al Maghrib persevered in its mission to strengthen proactive banking risk monitoring mechanisms. For example, on-the-spot verifications of Moroccan banks, which have been subject since 2006, are more frequent and oriented towards the main risk areas.

On the one hand, since 2007, public banks have been subject to the recovery process, as have private banks, as well as to compliance with all monetary and prudential rules. The regulatory framework has therefore aligned with international standards with the adoption of the Basel II provisions in 2007, and with International Accounting Standards (IFRS) which came into effect on 1 January 2008. On the other hand, since the onset of the financial crisis in 2008, the central bank has been working to consolidate its monitoring and prudential supervision system. Indeed, the latter recommended to banks more exhaustiveness and frequency of reporting on exposures to subprime, direct or indirect loans, invited Moroccan bank management to raise the level of vigilance and involvement in risk management, especially those related to international activities, and updated its surveys on the conditions for granting loans, particularly those relating to trends in household indebtedness. As a result, the stock of household bank debt amounted to 309 billion dirhams in 2016 against 5.1% in 2015.

With regard to the micro-prudential plan, in order to allow better management of internal and external growth operations, the central bank aims to strengthen the financial foundations of credit institutions, thus the latter decided to increase the minimum Tier I level to 9% at the end of June 2013, and to increase the solvency ratio to 12%. This measure, aimed at strengthening the flexibility of the banking system, strengthens the position of the central bank, with a view to implementing an essential component of the Basel III reform relating to own funds. This reform on prudential supervision, forms the preferred channel for a structured dialogue between Bank Al-Maghrib and the other banks, on topics such as the quality of internal evaluation and the adequacy of own funds to their risk profile.

The central bank also focused on assessing the quality of banks' assets and their governance practices and on the supervision of cross-border banks, that is to say, those with an important international network, which enables them to have a wider geographical activity.

As for the macro-prudential plan, in recent years the central bank has carried out several projects for the establishment of an institutional and analytical macro-supervisory systemThe Bank’s supervisory activities are based on a broader perspective of financial stability, in particular by carrying out "stress tests" to assess the banking system’s resilience to negative macroeconomic and financial conditions.

In line with the experience gained from the Banking Law No. 34-03 implemented in 14 February 2006, in particular with regard to banking supervision, and following lessons learned from the international financial crisis, the need to establish crisis prevention and management mechanisms and to strengthen the supervision of the activities of credit institutions are essential for the Moroccan banking system. In this context, the new banking law "Law No. 103-12" on credit institutions and similar bodies was published in the official bulletin, in order to achieve the above objectives and to promote the convergence of the legislative framework governing banking activities with international best practices.

This law, which constitutes a regulatory and legal framework more favourable to growth, job creation and the improvement of the conditions of access to financial services by citizens, aims to strengthen the supervision framework of the banking system and the emergence of new banking services and players.

In 2017, the central bank continued to strengthen the banking regulatory framework, notably through the implementation of new capital requirements. In the face of developments in the banking sector (increased competition, crisis of confidence) customer relationship management is an important issue for banks. It contributes to the optimization of the customer portfolio management, more specifically the customer relationship management system allows to acquire new customers and to increase the profitability of existing customers.

The last financial crisis and the events that have followed since then, highlight the need to put in place a system of protection of customers of banking institutions, which requires strict regulations, a rigorous control of the central bank and an effective customer protection system. In this regard and drawing on international best practices and in accordance with the provisions of Law 31/08 which enacts consumer protection measures, Bank Al-Maghrib ensures that credit institutions comply with certain obligations when granting credit (publicity, prior offer of credit, withdrawal periods, etc.). As well as clear and transparent information from the consumer about the products, goods or services offered.

In January 2018 it was introduced a flexible exchange rate regime based on a horizontal band (+/- 2.5%), within which the dirham can fluctuate freely depending on the supply and demand in the interbank exchange market. The central bank can intervene in the market only if necessary, to defend the targeted interval

Developments in the structure, activity and profitability of the banking sector:

In 2017, banks continued to expand their banking network both nationally and regionally, contributing to the banking of the population and promoting financial inclusion.

The Moroccan banking sector has 86 credit institutions and similar bodies for the year 2017, including 5 new players in participatory finance, 19 conventional banks including 3 with a participatory window, 32 finance companies, 6 offshore banks, 13 microcredit associations, 9 payment institutions specialising in money transfer, and 2 other institutions, namely: the Caisse de Dépôt et de Gestion and the CaisseCentrale de Garantie.

The private shareholding represents a predominant share of the bank’s shareholding, representing 69% of the capital of Moroccan banks, which consists mainly of holdings of private groups, insurance companies, social security funds and foreign banking groups.

At the end of 2017, foreign shareholders held a majority in 7 banks and 7 finance companies through foreign shareholders of French, Spanish, American and Jordanian origin. For its part, the majority foreign shareholding has been strengthened, with the creation of participatory banks, in partnership with banking actors from the Gulf countries. The number of publicly owned institutions remained stable at 5 banks and 4 finance companies.

Eleven credit institutions, including six banks, were listed on the stock exchange at the end of 2017, representing more than 34% of the market capitalization.

At the international level, two banking groups have acquired two banks, one in Egypt and the other in Niger, the presence of these groups in Africa is distributed in 26 countries: 10 countries in West Africa (including 8 in the West African Economic and Monetary Union area), 6 countries in Central Africa, 6 in East Africa, 3 in the Maghreb and one in Southern Africa. These groups have a network of 1,405 branches, hold 7.2 million accounts and manage 2.5 million bank cards.

In the rest of the world, Moroccan banks are also established in 7 countries in Europe through 3 subsidiaries and 11 branches. They also operate through 48 representative offices in 11 countries, mainly in Europe.

Generally speaking, at the end of 2017, there were 6,388 bank branches, that is to say one bank for 5,450 inhabitants, 7,025 automatic teller machines, 1,405 bank branches abroad.

For the year 2017, the banks' financial base generated an average solvency ratio of 13,9% and a basic capital ratio of 10,9%, determined according to the Basel III rules, levels allowing banks to have safety mats to promote their resilience. As of July 2015, banks are required to meet a minimum liquidity ratio of 60%, which is expected to increase gradually by 10 points per year to reach 100% by 2019.

The analysis of the activity and profitability on a consolidated basis, traced from the financial statements, drawn up in IFRS standards, by 9 banking groups, representing 93% of the market share on a base highlights the resilience of the Moroccan banking sector in 2017, showing overall satisfactory indicators. This analysis makes it possible to integrate the activities and results of banks carried out by the companies they control in Morocco and abroad.

Indeed, the 9 banking groups saw their activity and profitability indicators improve in 2017, benefiting from the diversification of their activities, both sectoral and geographical. This evolution reflects the organic growth of the groups as well as the changes in the scope of consolidation following external growth operations and the strengthening of their holdings in certain subsidiaries.

The total assets of the nine banking groups amounted to 1,540 billion dirhams, up 7.6% in 2017, compared to 5.4% in 2016. O n the employment side, this reflects an increase in loans and loans to customers and an acceleration in financial assets at fair value by profit or loss and those available for sale. In terms of resources, it finds its origin mainly in the increase in debts owed to customers. On the resource side, deposits collected from customers continue to be the largest item with a share of 67.9%, 0.5 points lower than the previous year. Amounts owed to credit institutions and debt securities issued increased by 0.1 and 0.3 percentage points to 9.5% and 3.8% respectively.

According to the indicators noted by the Professional Group of Banks of Morocco, at the level of the savings collection function, all the resources drained by the commercial banks (excluding CIH, CAM) was 847.4 billion Dh at the end of 2017 and 844.1 billion Dh at the end of June 2018, up 5.7% in 2017 and down 0.4% in June 2018.

Chequing accounts and savings accounts, which together represent an outstanding amount of 499.1 billion Dh in 2017 and 512.1 billion Dh in June 2018 continue to provide the largest contribution to banking resources, representing 64.0 billion Dh2% of the resources collected from customers in June 2018.

The recent consolidation of the sector in late June 2018 led to a strong concentration of the sector with six major banks (Attijariwafa bank, BCP, BMCE bank, BMCI, SG, CDM) controlling 95.8% of loans and 91.1% of deposits, according to GPBM, of the total of 130 commercial banks.

According to the situation set by GPBM at the end of June 2018, PCO is in first place in terms of resources, taking 28.6%, followed by AWB with a market share of 27.1%, and BMCE with a market share of 16.5% (see graph below)

According to the same situation, AWB occupies first place in terms of resources by taking 29.2%, followed by AWB and BMCE with market shares of 27.7% and 16.5% respectively.

III. Conclusion:

In the unstable environment, like banking industrial sector, banks have developed performance analysis systems based on the implementation of internal control and regulatory reporting systems, and compliance with prudential standards radically changing the role and content of management control. In this context, our research aims to study the practice of Management Control in the banking sector and provides an overview of the evolution of this function and its tools in this type of organisation. It allows us to understand how the banks have adapted their management model to the profound upheavals in the sector, particularly in a context of crisis.This article focus also on the evolution of the Moroccan banking system in the face of changes in the regulatory framework of credit institutions in Morocco, the structure, activity and profitability of the Moroccan banking sector.

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