



RATING ASSESSMENT OF THE ACTIVITY OF COMMERCIAL BANKS BRANCHES

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ABSTRACT	KEY WORDS
In the market of banking services, it is important to increase the sales of services by expanding business and organizing branch activities. Evaluating the activities of bank branches and coordinating their activities is one of the important and urgent tasks of bank management. It is important to identify the branches of the bank that have achieved good results and those that are lagging behind the average indicators and to take measures to improve their performance. This leads to the need to create a system for evaluating the activities of bank branches and divisions. However, it requires the use of accurate evaluation methods to identify branches that are lagging behind due to management inefficiency, mislocation, and other aspects. The rating and rating system allows for a systematic analysis of branch activities, identification of negative factors affecting their activity, and identification of leading and lagging units. This article examines the issues of using the rating evaluation system in the activities of the branches of the banks of the Republic of Uzbekistan and makes recommendations for its improvement.	Bank branch, rating, rating evaluation, profit per employee, income, cost, net profit, efficiency, interest income, non-interest income, asset efficiency, capital efficiency, net interest margin.

Introduction

According to the Decree of the President of the Republic of Uzbekistan dated May 12, 2020 No. 5992 “On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025” in order to increase the popularity of financial services of banks: By expanding the network of compact “banking services offices” that do not require employees in all regions, optimizing the existing network of branches, as well as providing “mobile banking” services at the expense of wide implementation¹, it will be possible to meet the needs for banking services in the regions by creating branch networks of banks. At the same time, the expansion of the branch network in banks requires solving an urgent issue, such as assessing how efficiently their operations will work in the future.

In addition, according to the decree, tasks such as “transition to modern systems of remuneration based on the evaluation of the performance of each employee (KPI, bonus)” are established, and the

¹ Decree of the President of the Republic of Uzbekistan dated May 12, 2020 No. DP-5992 “On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025”. <https://lex.uz/docs/4811025>.

performance evaluation of each employee operating in the branches is required. This creates the need to create and implement rating systems for evaluating the activities of bank branches.

As a rule, the rating assessment of the bank's activities can be carried out by specialized rating agencies or consulting companies. Banks are rated by major international rating companies such as Standard & Poor's, Fitch Ratings, and Moody's. National rating companies can also do the rating, for example, the rating company "Ahbor-Reyting" in Uzbekistan, and the company "Expert RA" in Russia publish their ratings.

Sometimes such studies are carried out by news agencies, scientific research centers, printed publications, for example, "Expert", "Money" magazines or the Center for Economic Research and Reforms in Uzbekistan, rating the activity of commercial banks.

However, within the framework of this research, the issues of using the rating system in evaluating the activities of bank branches were studied and a separate system of indicators was used as an object.

Analysis of literature on the topic

Issues related to the evaluation of bank branch operations and their effectiveness have been studied and are being studied by domestic and foreign scientists and researchers.

The existing various theoretical and methodological approaches to evaluating the effectiveness of bank branches are controversial and require scientific research. This confirms the high relevance and practical importance of research and development in this direction.

Simply aggregating these results and metrics can give a false indication of performance, or worse, hide underperforming business components within the overall score. Although some complex ratios can be in the form of indicator numbers, determining the weights to be applied and identifying underperformance due to aggregated numbers are some of the difficulties in using indicators.

According to the researches of G.Karataeva, the efficiency of commercial bank activity is an economic category describing the financial result achieved by the bank in the course of its activity, as well as a pre-determined strategic goal. It shows the bank's competitiveness and sustainable development².

As a result of the study, an integrated system of indicators was proposed, and as a result, branch activities were evaluated.

According to the researches of O. Vyskachkina and others, the modern theory of financial analysis developed a large number of coefficients used in the evaluation of the financial and operational activity of the bank. However, it should be noted that a significant part of these indicators cannot be used to determine the efficiency of the bank branch. The reason for this is the existence of accounting and analytical limitations. As a result, he noted that it is not possible to perform calculations as separate indicators for the branch³.

Research Methodology

In this article, data grouping, comparative and structural analysis of indicators, induction and deduction, analysis and synthesis and other scientific analysis methods are widely used. Also, comparative analyzes were carried out on the basis of statistical and practical data on the activities of

² Karataeva G.E., Shikhveledova D.K. Efficiency of commercial banks: concept and assessment methods // Bulletin of Surgut State University. 2020. No. 3. P. 6–16.

³ Vyskachkina O.A., Dubova S.E. Methodology for assessing the effectiveness of regional bank activities // News of higher educational institutions. Series: economics, finance and production management. 2011. No. 2 (8). P. 21–27.

branches of the Central Bank of the Republic of Uzbekistan, JSC “Aloqabank” and JSCB “Uzsanoatqurilish”.

Analysis and discussion of results

In the rating system for evaluating the activity of bank branches, it is necessary to select predetermined indicators of the financial results achieved in the activity of bank branches.

When evaluating the activities of bank branches, the strategic goal of the bank is primary, and the assessment is made based on the volume of services provided by bank branches. At the initial stage, a set of indicators covering all areas of the bank's activity will be developed. There can be dozens of indicators that are offered to determine the ranking of affiliates. The large number of indicators is important in evaluating the activities of branches and drawing conclusions. However, the calculation of the indicators and the non-availability of its information sources can create difficulties.

Table 1 The main indicators used to rate the activities of bank branches⁴

Indicators	Execution		Weight	
	min	max	min	max
On attracting customers	80%	100%	0,0	15,0
Implementation of the loan portfolio balance plan	80%	100%	0,0	20,0
The share of unclaimed income account balances in the loan portfolio	1,5%	1,0%	0,0	10,0
Performance of the deposit plan indicator	80%	100%	0,0	10,0
Connecting to the bank's mobile application	80%	100%	0,0	15,0
The number of loans allocated to corporate clients during the reporting period	1,0	3,0	0,0	5,0
Share of problem loans in loan portfolio	2,0%	1,5%	0,0	10,0
Indicator of population savings	80%	100%	0,0	10,0
Issue of bank cards	80%	100%	0,0	5,0
Total score	80%	100%	0,0	100,0

Based on the data in the table above, a system of indicators for rating evaluation is proposed on the example of conditional bank indicators. In this, the important directions in the activities of the branches were determined. Including indicators such as customer attraction, credit portfolio balance, share of uncollected income account balances in the credit portfolio, deposit attraction, connecting customers to the bank's mobile application, the number of loans granted to corporate clients, the share of problem loans in the credit portfolio, the indicator of household deposits and the issuance of bank cards is an integrated system and is evaluated up to a total of 100 points.

Table 2 below introduces additional indicators used in the rating assessment based on the financial results achieved by bank branches.

⁴ Compiled by the author based on research results.

Table 2 Additional indicators used to rate the performance of bank branches⁵

Indicators	Execution		Weight	
	min	max	min	max
Indicator of interest income on loans allocated to corporate clients	90%	100%	0	10
Indicator of loans allocated to individuals	90%	100%	0	10
Income indicator for corporate non-credit activities	90%	100%	0	10
Income indicator for retail non-credit activities	90%	100%	0	10
Share of non-interest income in total income, %	30%	40%	0	20
Profitability, %	15%	20%	0	10
CIR (operational efficiency)	50%	40%	0	10
Net profit per employee	80%	100%	0	20
Total score	80%	100%	0,0	100,0

Based on the achieved financial results of commercial bank branches, the indicators used in the rating assessment focus on income plan indicators and efficiency indicators. In this evaluation, the indicator of interest income on loans allocated to corporate clients is -10 points, the indicator on loans allocated to individuals is -10 points, the indicator of income on corporate non-credit activities is -10 points, the indicator of income on retail non-credit activities is -10 points, the share of non-interest income in total income, -20 points, -10 points for profitability, -10 points for CIR, -10 points for net profit per branch employee -20 points and the result is a total of 100 points.

In this ranking assessment, two indicators are given the main weight, namely, the share of non-interest income in total income and the amount of net profit per branch employee, which is given 40% of the total result. Therefore, branches should effectively manage costs and reduce them to a minimum level in order to increase operational efficiency. It also tries to sell services that generate more commission income by focusing on transactions that generate interest-free income.

Conclusion and Suggestions

The proposed methodical approach to the implementation of the research creates a basis for rating the activity of bank branches, and its application in the activity of banks can give positive results. The proposed indicators used to obtain important results on the basis of the integrated indicator of the effectiveness of bank branches are interrelated and their importance increases when they fully cover the branch activity.

Increasing the efficiency of branches in banks requires the centralization of the bank's functional structure. Operations performed by bank branches can be confirmed in the bank's automated software or internal banking operations can be centralized. Internal operations of the bank, such as wages, taxes, insurance, low-value and fast-wearing items, fixed assets, are carried out through the Head Office, reducing the staff available in the branches and reducing operational costs in other aspects.

Centralization of certain functions of banking business services (for example, personnel management, credit risk assessment, call center) at the head office level. In order to increase the efficiency of

⁵ Compiled by the author based on research results.

branches, in addition, banks locate service centers in areas with low real estate and labor costs, which further increases efficiency.

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