Some Considerations on Evaluation Criteria Of the Territorial Network of Credit Institutions

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Abstract: Business environment requires credit institutions to build up a network of branches, agencies and offices covering all areas of the country and allow an active partnership and direct involvement in mobilizing savings temporarily available and placing them under conditions of high efficiency and minimum risk. There were times when the territorial network of credit institutions has expended noticeably from year to year, but since 2010 the reflux time has come and many agencies and branches of credit institutions had been closed. In one case or another, selection criteria is required and the assessment of past, present and future performance is needed.

The economic, financial, commercial, social and ethical criteria are discussed in this study, meant to offer a better understanding of how to prioritize the territorial components developed by credit institutions.

From an economic perspective, the main criterion is the efficiency of each territorial component embodied in productivity, profitability and profitability indicators.

From a financial standpoint, the hierarchy of territorial network has as the main criteria the quality of assets (embodied in the overall risk ratio, the share of overdue and doubtful loans, provision coverage ratio and coverage ratio of non-performing loans and investments) and liquidity (embodied in the liquidity indicator, immediate liquidity and credits - deposits report).

In terms of trade, market studies are considered so to reveal potential opportunities of the area versus bank's possibilities, banking services rate of coverage in the territory, complex marketing strategies and policies, human resources, regional development etc.

Ethical and social coordinates also prove to be important in the design of banks' territorial network as they can give a better image to the credit institution and can turn into an important pillar for bank's credibility, which are both indicators difficult to measure but very important to encourage the performance of credit institutions.

Performance evaluation and ranking of subunits that are part of the territorial network and represent a vision of creating profit centers can make an important contribution to motivate staff and increase the overall performance of the credit institution.

JEL classification: G21, G29

Key words: credit institution, territorial network, performance, efficiency, hierarchy criteria

1. INTRODUCTION

The structure on vertical of credit institutions is reflected on two levels, visible both in organizational and functional plan as follows:

- *Central Bank*, usually located at the registered office of the credit institution, responsible for: the organization and management of the bank as a company, the choice of specific strategies and policies, the relationship with key stakeholders, the development, approval and dissemination of regulations, rules and procedures clearly required for a trading bank that rises up at the demands of the general public and prudential supervisory bodies;
- *Territorial Network*, composed of branches and secondary offices: agencies and workstations where activities allowed by Law 227/2007 on credit institutions and capital adequacy, approved by NBR, are put in practice.

If the Central Bank has only organizational responsibilities, being relieved of operational tasks, the branch has both organizational and operational duties while the agency and the workstations are focused only on operational objectives.

Regardless of the size of the branch network, the credit institution needs reasonable and transparent evaluation criteria in order to assess the contribution of each subunit to the bank's overall results for future burden sharing and transforming each secondary office into a profit center. In this study are considered the economic, financial, commercial, social and ethical criteria aimed at a better understanding of how to prioritize the regional network developed by a credit institution.

2. EFFICIENCY CRITERIA OF ACTIVITY

From an economic perspective, the main criterion is the efficiency of activity embodied in productivity, profitability and return indicators.

a) productivity indicators are calculated as the ratio between performance and consumption of resources, among which:

• Total revenues per employee (V / s), reflecting the contribution of each employee to the results of each entity's subunit.

The relation of calculation is:

$$V/s = \frac{\text{Venituri totale}}{\text{Număr salariați}}$$

- Value added per employee (Va / s), reflecting the average contribution of employees to the added value made by bank's subunit.

The relation of calculation is:

$$Va/s = \frac{\text{Valoarea adăugată}}{\text{Număr salariați}}$$

- Amount of funds raised per employee (Vr / s), reflecting the employees' own contribution to the resources attracted by the banking subunit.

The relation of calculation is:

$$Vr/s = \frac{\text{Resurse atrase}}{\text{Număr salariați}}$$

- Coverage of wages from earned fee incomes reflects the productivity of services provided by subunit's employees and is determined by the relationship.

$$\text{Grad de acoperire c/s} = \frac{\text{Venituri din comisioane}}{\text{Fond total de salarii}} \text{ x100}$$

b) Profitability indicators that reflect the efficiency of bank's activity, comparing revenue and expenditure.

- Revenues profitability rate shows the net profit to 1000 lei income.

$$\text{Rpv} = \frac{\text{Profit net}}{\text{Venituri totale}} \text{x1000}$$

- Expenditure profitability rate reflects the net profit realized at 1000 lei costs.

$$\text{Rpc} = \frac{\text{Profit net}}{\text{Cheltuieli totale}} \text{x1000}$$

c) Return indicators reflect the efficiency of their activity, correlating profit nature effects with effort sizes of the resources used.

- Return on assets (ROA), measures subunit's performance by comparing net profit to total assets so:

$$\text{ROA} = \frac{\text{Profit net}}{\text{Total active la valoarea netă}} \text{x100}$$

- Net interest margin (Nim) can be used both to assess the actual performance and to determine the breakeven point of return of the banking division. Relationship calculation is:

$$\text{Rmd} = \frac{\text{Venituri nete din dobânzi}}{\text{Active medii generatoare de venituri}} \text{x100}$$

- Breakeven point expressed by the amount of credit that cover the fixed operation costs of banking division is determined by the formula:

Pr = Fixed operation costs of banking division / Rmd

d) Other indicators of banking efficiency used in practice are:

- Asset utilization (Gua) expressed by the total revenue obtained (income from interests, commissions, fees) at 100 lei total assets. Using as elements of calculation the total income from operations and total assets, the relation of calculation is:

$$Gua = \frac{\text{Venituri totale din operații}}{\text{Active totale}} x100$$

- Costs at 100 lei revenue is calculated as:

$$Ch/100\ V = \frac{\text{Cheltuieli totale}}{\text{Venituri totale}} x100$$

- Degree of collecting interest (DCI) measures the ability of the credit institution customers to pay interest on loans.
  Relation of calculation is:

$$Gîd = \frac{\text{Venituri din dobânzi} - \text{Dobânzi încasate}}{\text{Venituri din dobânzi}} x100$$

- Overdue loans to total loans (Cr) reflect the share of loans outstanding in the lending period or the extent of reimbursement of loans.
  Relation of calculation is:

$$Cr = \frac{\text{Credite restante}}{\text{Total credite}} x100$$

The system of indicators will award subunits with a low volume of loans outstanding and downgrade those that tend to increase the share of overdue loans.

- Share of credit losses to total loans (PPP) supplements the information provided by the overdue loans in total loans indicator, on the subunit's effectiveness of lending.
  Relation of calculation is:

$$Ppc = \frac{\text{Pierderile din credite}}{\text{Total credite}} x100$$

- Profit per employee (P / em) reflects the efficiency of each employee's work and management's effectiveness in providing and using personnel.
  Relation of calculation of this indicator is:

$$P/sal = \frac{\text{Profit net}}{\text{Total salariați}}$$

From a financial standpoint branch, territorial network hierarchy has as main criteria the assets quality(embodied in the overall risk ratio, the share of overdue and doubtful loans, provision coverage ratio and coverage ratio of non-performing loans and investments) and liquidity (embodied in the liquidity and immediate liquidity indicators and the credit - deposits report).

3. Commercial Criteria

From the commercial point of view, when deciding on opening a bank subunit in a specific area, it is considered the ability of that area to ensure a certain level of attraction of population's savings temporary available through a wide range of liability banking products such as: current accounts. Deposits in lei and foreign currency, spot and forward, with or without capitalization, and the possibility of placing the funds rose for bank loans and other investments in the area.

It is not mandatory for each bank subunit to achieve a balance between resources taken and resources placed, since the obvious feature of modern banks is redistribution of funds raised at territorial level and directing them towards the most profitable projects, regardless of the geographical area in which they are located.

The result of this modern banking concept is that, in reality, appear liabilities bank subunits which attract more resources than they can place and consequently asset bank subunits which succeed to place more loans than the sources they attracted.

Bank management has the task of measuring accurately the work of both assets and liabilities bank subunits, knowing that interest expense are recorded in the liabilities subunits and active interest income are recorded in asset bank subunits. It is clear that, in this case, a system of bank assets and liabilities administration is needed which shall reward subunits that have managed to attract resources and, at the same time, those which took risks with giving loans.

4. Ethical and Social Coordinates

Ethical and social coordinates also prove important in the territorial network architecture because they can provide a better image to the credit institution and can turn into an important pillar for increasing bank credibility, indicators which are difficult to measure but very important to encourage the performance of credit institutions.

Analyzing the territorial network of credit institutions in our country, in the current period, it is not difficult to see that the rural population has no access to banking products and services at the level of the urban population. Economic considerations have led to the closure of many rural banking agencies. Given the low level of market coverage with banking products and services in rural areas, we can estimate that this area has potential since about 50% of the Romanian population lives in rural areas. However, development of rural area through modernization with European funding programs, objective in line with the Cohesion Fund is required so to allow an increase of population's incomes and thus their possibility to access banking products and services.

It is necessary for ethical and professional values promoted by credit institutions to be followed by all personnel of the credit institution's territorial network.

5. Conclusions

For performance evaluation and ranking of territorial network subunits, a complete set of efficiency criteria should be considered based on the indicators of activity described above, without neglecting the commercial aspects or ethical and social ones. Most credit institutions rank the secondary offices of their territorial network by awarding points for performance indicators weighted by its degree of fulfillment of the tasks thus contributing to the improvement of staff's motivation and the growth of overall performance of the credit institution.

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