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EFFECTIVE COST MANAGEMENT OF COMMERCIAL BANKS

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Abstract. Effective cost management is essential for commercial banks. High risk is an important feature of commercial banking, so any mismanagement leads to loss of liquidity, debt repayment, and bankruptcy. The article examines the nature and types of bank expenses, the importance and methods of their effective management and optimization.
Keywords: Commercial banks, expenses, operating expenses, interest expenses, non-interest expenses, commission expenses

Banks play a very important role in deepening and improving market relations in the country. Today, the development of market relations based on free competition is impossible without the variety and quality of banking services provided by market participants.

The expenses of a commercial bank are the bank's funds, the expenses of which are aimed at carrying out various operations and ensuring its activities. The expenses of commercial banks represent the use of funds necessary for all types of banking activities.

Today, commercial banks carry out the following bank charges:

- interest expenses: on demand deposit accounts, time deposits, payments to the Central Bank and other commercial banks, on payable loans;
- non-interest expenses: commission expenses and expenses for services (for example, bank advertising or conducting events), losses from negative changes in foreign exchange rates, investments, etc.;
- operating expenses: salary expenses, rent of bank buildings and other expenses, business trips, depreciation, insurance, taxes, etc.;
- payments for association membership fees and payments of funds to the Citizens' Deposit Guarantee Fund.

Usually, 2/3 of the bank's income is spent on interest expenses, covering losses on loans, expected profits and capital growth. Costs are affected by any changes in interest rates, the composition of liabilities and the amount of private capital, as well as liquidity. In turn, changes in the composition of bank expenses require changes in the return on assets. Accurate costing allows banks to allocate alternative conservative resource prices and accurately assess bank assets, cover costs, and distribute profits to shareholders. Cost estimation should be considered as the main factor in determining the interest rates on loans.

Interest expense is the amount of interest accrued on all liabilities. As we know, commercial banks accept demand deposits and term deposits in the organization of credit resources. Banks pay money to these deposits at certain specified interest rates. Commercial banks pay interest on bank debt obligations, including when there is a negative difference between the selling price and nominal value of securities, interest costs arise in banks when paying some accrued but unpaid interest.

Another of the banks' interest expenses is credit and related operations. Banks can receive loans, first of all, from the Central Bank, other commercial banks, and extra budgetary funds. Debt paid for loans is included in interest expenses. The bank makes interest expenses by returning the interest and brokerage fees paid to the account of previous years (compared to the reporting year), as well as the interest and brokerage fees collected in excess from bank clients in previous years. Non-interest-bearing expenses include wages and additional payments, rental and purchase of equipment or buildings, as well as other non-interest-bearing expenses.

Bank expenses can be classified and divided according to their forms, nature, accounting method, as well as according to the period to which they belong and many other characteristics, the main of which are following:

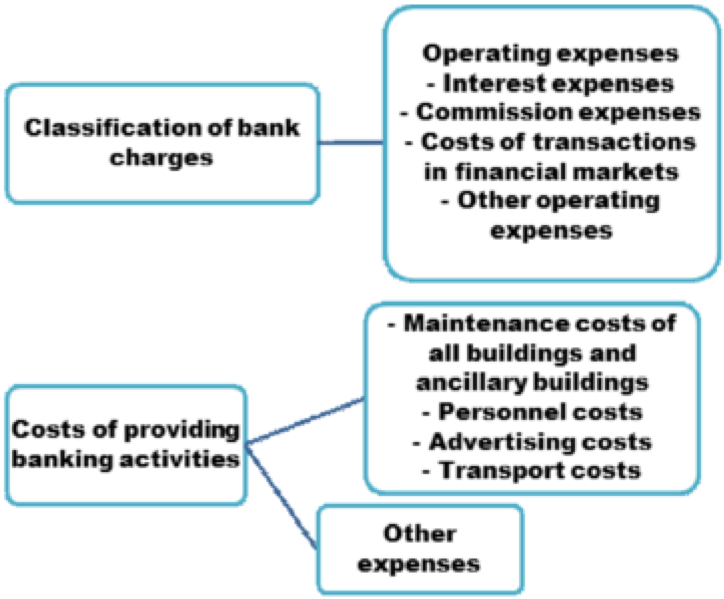

Figure 1. Classification of expenses of commercial banks

The structure of operational costs of banks may differ depending on the organizational form of the bank. Usually, the weight of operating costs is high in private banks, because private banks focus on increasing the salary fund. Deposit operations are the main part of the operations of banks related to resource collection. In the composition of interest expenses, interest expenses paid on deposits have a high weight.

Bank management expenses allow to increase the efficiency of the bank's activity and work and ensure high profit.

The objectives of cost management depend on the bank's policy, term, objectives of the bank's activity and future costs of the bank. The main place in cost management belongs to the bank's marketing policy. Cost management is also related to the optimization of bank costs, in particular:

Cost planning
Tariff policy management
Reduce direct costs
Bank monitoring of expenses
Tax optimization
Reducing the share of non-interest expenses.

In order for the management of bank expenses to be effective, it is necessary to design and develop effective methods and methods of managing bank expenses.

The essence of cost management is the formation and subsequent regulation of the structure of the debt balance, which ensures the achievement of the goals and tasks set before the bank.

In order for the bank to start the process of cost optimization, it is necessary to go through the following steps:

The first step is to develop the basic princi ples of non-interest expense management. At the same time, it is desirable to create a clear organizational structure of cost management. In order to ensure the correct and consistent implementation of cost management measures, this methodology provides for the division of functions between the bank and its branches and divisions.

The second stage is to determine the minimum acceptable level of interest-free expenses in accordance with the current organizational structure of the bank. In this methodology, the minimum non-interest expenses are understood as the amount of expenses incurred on unavoidable items, designed to ensure the stable operational function of the bank. These items are displayed and changed taking into account external economic conditions and factors (increase in tariffs, rent, etc.) and do not depend on the financial condition of the bank.

The third stage is to determine the maximum possible level of expenses based on the analysis of the bank's financial situation. The maximum level of expenses is considered as the maximum level of interest-free expenses of banks, which ensures the level of profitability of banks in the planned period.

The cost limit is calculated based on the forecast of financial indicators. In this case, planning is carried out in two stages:

overall results planning;

planning results for each division, branch or department.

Depending on the duration of the plan or the expected period, plans can be long-term (a year or more), medium-term and operational (from a month to a quarter).

The fourth stage is to optimize the use of funds allocated for non-interest expenses.

In fact, banks often have a situation where the actual planned amount of non-interest expenses exceeds the maximum amount of expenses to ensure the stable operational function of the bank. In this case, a decision is made by the bank's management or authorized manager to take measures to reduce the level of interest-free expenses. This decision should be considered on the basis of forecasting the actual financial results for the reporting period. The most characteristic way to solve this situation is to take the following measures:

to provide a direct reduction in non-interest expenditure or to provide an increase in resources continue to increase revenues through resource allocation banking.

The selection and evaluation of the results of activities related to the implementation of temporary costs is carried out on the basis of the purchase directive, which provides for the consideration of costs incurred from additional profits in a certain period. Thus, the maximum allowable amount of one-time costs that can be attributed to a particular project is limited by the payback period. In practice, the repayment period is often set within 24 months after the end of the activity or event.

In our opinion, cost optimization is more important than cost reduction and minimization, as it is developed in a perspective-oriented manner and includes a number of approaches, different methodologies, from simple cost reduction to the optimal tax base. Choosing the most appropriate and effective method depends on a specific management decision and is individual for each bank.

The development of a regulatory methodology for the management of non-interest expenses allows the bank to solve the problem of optimizing and effectively managing bank expenses and creating a cost management mechanism that ensures that they correspond to the cash flows of the received amounts. This method should be the basis for ensuring the profitable operation of each division and branch of the bank in each specific period, and at the same time minimize the dependence of the bank on market conditions and external conditions that have a significant impact.

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