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Cost Control in banking sector

Cost Control

- Cost control and cost cutting have been established as a mantra among banks internationally to improve their profits performance.
- **Cost control** is the Part of **Cost Management.**
- **Cost Management** is the process whereby companies use cost accounting to report or control the various costs of doing business.

Cost structure in a Bank

Typical Cost Structure: Retail Banking

		% of total costs	% of total income
Personnel —	Salaries	50	34
	Pensions	15	10
	Concessionary loans	5	3
	Total staff costs	70	47
	Occupancy (leasehold premises)	5	3
	Notional rental (freehold premises)	3	2
	Equipment	3	2
	Depreciation	5	3
	Communications	5	3
	Miscellaneous	4	3
	Bad and doubtful debts	5	3
	Total costs	100	66
	Total income	150	100

Cutting Cost: Methods & Controls

Cutting costs is the simplest way to improve the bottom line. Introducing a cost control system can bring immediate savings and ensure that the organization remains competitive in the longer term.

Cutting Cost: Methods & Controls

Cost control needs to be carefully managed. While eliminating wasteful activities is clearly beneficial, indiscriminate cost cutting can lead to falling quality and poor morale.

- Identifying where to focus the efforts.
- Managing cost control.
- Specific cost control opportunities.
- The pitfalls.

Key Cost reduction areas

The Costs

Cost control works best as part of the routine financial management. The first step is to look at the existing costs.

- Identify your major cost centers.
- Identify the major types of cost within each cost centre.
- Choose the costs to focus on first.

Systematic cost control

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- Start from your business objectives.
- Establish the ‘standard costs’ for achieving the objectives.
- Establish realistic ‘budgeted costs’ based on actual experience.
- Record the actual costs and compare them with the standard and budgeted costs.
- Periodically review the entire process.

Who to involve ?

- Each cost centre is usually the responsibility of one manager.
- Involve employees in cost control.
- Include your customers and suppliers.
- Advice from external consultants can be a useful resource.

Easy Savings

- Checking supplier invoices may reveal overcharging.
- Eliminate unnecessary costs.
- Crack down on excessive costs.
- Root out inefficiency.

Opportunities

- Reduce your payroll costs.
- Improve your purchasing.
- Find ways to make production more efficient.
- Review your finances.
- Get the most out of your premises.
- Cut the cost of communications.

Pitfalls to Cost Cutting

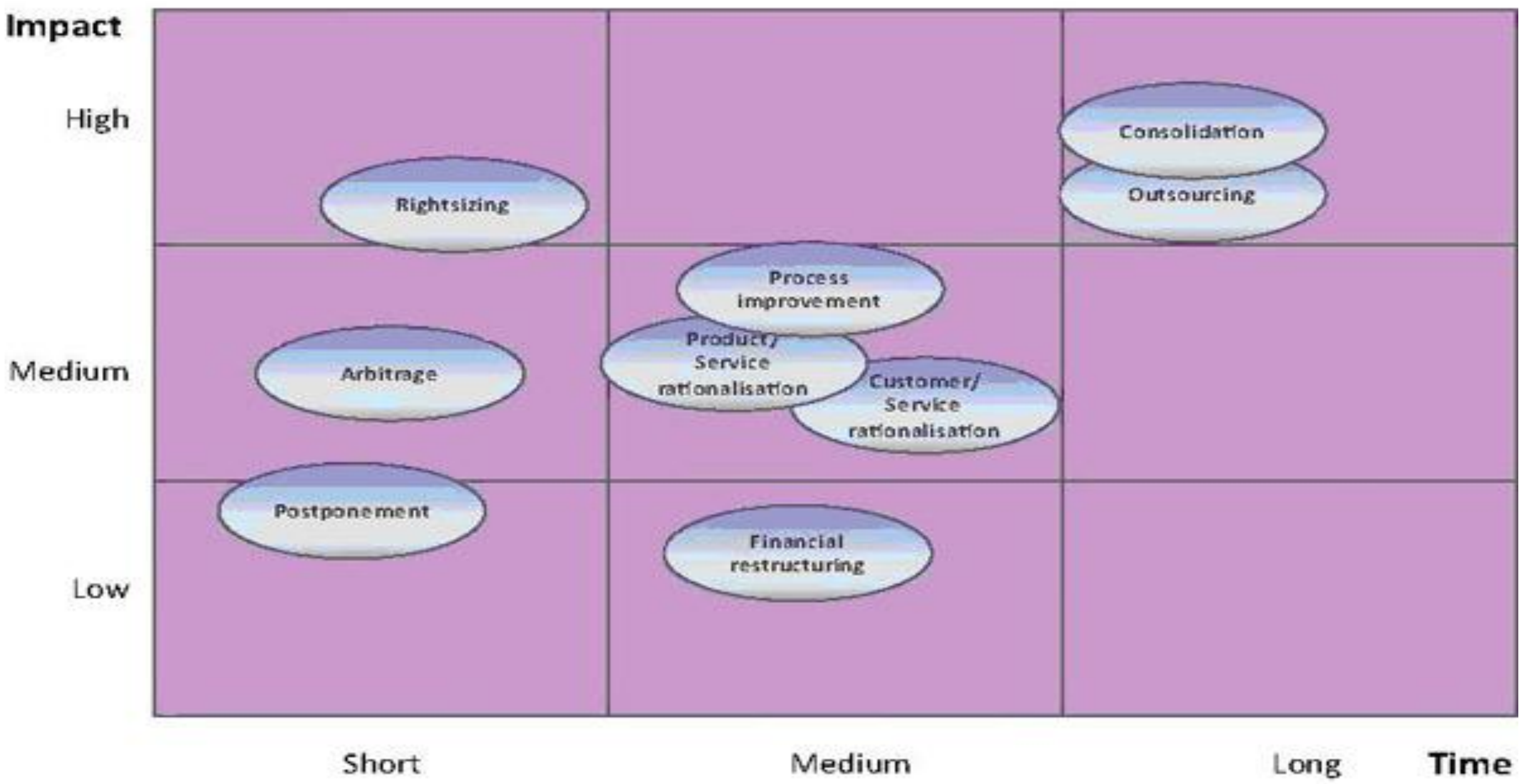
- Reducing costs which directly impact on employees is fraught with difficulty .

  E.g :Poor conditions, pay and benefits will not attract and retain good employees

- Almost every cost saving has a potential downside.

  E.g: Cutting short-term ‘investment’ costs (eg training, advertising, equipment or new product development) can lead to long-term weakness.

Time Scale of Cost Controls



Conclusion

As we have seen from the Chart earlier.

- 70% of the Bank's expenses are from the Employees, i.e. - Manpower.
- Where as the Income from Manpower is 47%.

Conclusion ……………contd

- Cost control is difficult to implement in a Bank.
- Where as Cost Cutting is more feasible.
- The cost centers has to add to the profit productivity, i.e. – Cross selling of bank & financial products.
- Reduce payroll load wherever possible.

Conclusion ……………..contd

- Focus on process improvement.
- Select innovative and cost effective ways to deliver the services to the Clients.
- Focus more on ATM’s and Internet Banking facilities.
- Reduce the number of “Manned”, Branches.

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