Cost Control in banking sector
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.
## Typical Cost Structure: Retail Banking

<table>
<thead>
<tr>
<th>Cost Category</th>
<th>% of total costs</th>
<th>% of total income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel — Salaries</td>
<td>50</td>
<td>34</td>
</tr>
<tr>
<td>Pensions</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Concessionary loans</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Total staff costs</td>
<td>70</td>
<td>47</td>
</tr>
<tr>
<td>Occupancy (leasehold premises)</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Notional rental (freehold premises)</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Equipment</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Depreciation</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Communications</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Bad and doubtful debts</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Total costs</td>
<td>100</td>
<td>66</td>
</tr>
<tr>
<td>Total income</td>
<td>150</td>
<td>100</td>
</tr>
</tbody>
</table>
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.
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

- Rationalising customer based or market segment(s) based on cost / profitability of serving.
- Rationalising product or service offering(s) based on cost / profitability of delivering.
- Essentially shopping around: taking advantage of different prices existing in different markets; for example as a result of fierce competition or market inefficiencies caused by the recent economic shockwaves.
- Contracting with (usually) a third party to perform specific business processes, services or transactions at a lower cost than can be achieved in-house.
- Reassessing strategic direction in the light of the imperative to reduce an organisation or business unit's cost base.
- "String"ing" an organisation's resources, assets, facilities and infrastructure in line with new current and expected demand.
- Postponing, delaying or cancelling all or portions of specific planned expenditure elements.
- Restructuring financial arrangements and policies including debt terms, factoring, working capital etc.
- Consolidating business processes and technology (systems and infrastructure) to capture scale and other benefits – for example shared service centres and single-instance system models.
- Reengineering, redesigning or automating business processes with the specific objective of reducing cost.
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

- 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.
Reduction 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 (e.g. training, advertising, equipment or new product development) can lead to long-term weakness.
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.
Contacts

Manor Group
info@themanorgroup.net
www.themanorgroup.net