WAYS TO OPTIMIZE BANK EXPENSE

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Annotation: The article discusses the composition of bank expenses and accounting for expenses, provides suggestions for improving expense accounting, and presents the results of conducted research in the conclusion.

Аннотация: В статье рассмотрен состав банковских расходов и учет расходов, даны предложения по совершенствованию учета расходов, в заключении представлены результаты проведенного исследования.

Keywords: banks, expenses, salaries, interest and non-interest expenses, operational expenses, credit, leasing and storage costs, administrative expenses, business travel and transportation expenses, prepaid expenses.

Ключевые слова: банки, расходы, заработная плата, процентные и непроцентные расходы, операционные расходы, кредит, лизинговые и складские расходы, административные расходы, командировочные и транспортные расходы, расходы будущих периодов.

Introduction. Generally, an expense is a decrease in financial resources or other assets during a reporting period that is not related to the repayment of capital owners' contributions, or an increase in obligations that leads to a decrease in economic benefits. The expenses of banks consist of interest and non-interest as well as operational expenses incurred in the process of conducting bank activities. All these expenses are accounted for in the "Expenses" accounts (50000 series) in the accounting plan.

Banks incur expenses to fully conduct their operations. The expenses of commercial banks can be divided into three groups:

- Interest Expenses;

- Non-interest Expenses;

- Operational Expenses;

Interest Expenses comprise the total amount of interest paid to customers and other banks on all liabilities. Commercial banks accept demand, savings, and term deposits to organize their credit resources. Banks pay interest on these deposits at certain rates. Another significant part of banks' interest expenses is related to commercial banks' credit operations. Commercial banks may obtain credits from the Central Bank, other commercial banks, extra-budgetary funds, and non-bank financial institutions. The interest paid on these credits falls under interest expenses. A considerable portion of bank expenses are non-interest expenses. Non-interest expenses of banks include salaries and additional payments to bank employees, travel expenses, costs of renting or purchasing equipment or buildings. Banks in Uzbekistan also make mandatory contributions to the Uzbekistan Pension Fund, the State Fund for Employment, and the Social Insurance Fund of Uzbekistan, including bonuses for bank employees and additional payments for long service.

Discussion and Results. According to statistical data, the total expenses of Uzbek banks have increased by approximately 135% compared to the year 2022 (Table 1). Naturally, the banks' response to these figures is to directly reduce expenses. That is, achieving the planned value through the optimization of overall bank operational expenses and business process costs is achieved via the Cost/Income ratio indicator. In modern banks, this ratio averages 40-50%.

Table-1

Expenses in banking system

Expense type	11.01.2022	11.01.2023	Growth rate
Interest expenses	32 532	46 635	143,35%
Non-interest expenses	9 383	10 231	109,03%
Operational expenses	11 380	15 324	134,65%
Total	53 295	72 190	135,45%

Discussion and Results. Practical experience from banking operations shows that implementing optimization measures can save approximately 10-20% in non-operational expenses in the short term. For example, just a 0.5% reduction in expenses for the top 50 U.S. banks resulted in savings of $250 million. However, long-term savings can lead to a reduction in assets and liabilities. Therefore, the expense optimization process must be well-thought-out and comprehensively reviewed. Direct costs in banking refer to administrative, economic expenses, and employee-related costs (payroll fund). This article examines reducing administrative and economic expenses to optimize banking costs, and the following measures can be applied:

- Creating a project team;

- Strategic analysis of the external environment and the bank's internal state;

- Analyzing the best practices in the banking sector regarding overall bank operations and business directions;

- Analyzing and classifying the administrative and economic expenses of the bank's structural divisions;

- Developing a set of measures to reduce the bank's administrative and economic expenses;

- Analyzing staffing costs and the bank's organizational structure.

In the first phase, a project group is formed to optimize the bank's direct expenses. As known from banking practice, the project group usually consists of two or three external consultants and one or two employees from the bank's financial and analytical services. Engaging external consultants is beneficial if:

1) the consultants have theoretical and practical experience, proven technologies, and models for optimizing bank expenses;

2) the consultants are independent of any of the bank's structural divisions.

This ensures that the bank divisions trust them and establish communication. The bank needs to appoint a project manager. The consultants will:

- Conduct surveys and interviews with heads of structural divisions;

- Develop an expense optimization model;

- Conduct a trial calculation of the expense optimization model and comment on the results.

The bank's financial and analytical service staff will:

1. Provide information about the bank's organizational structure and the tasks of its structural divisions;

2. Send classifications of bank products and reports on revenues;

3. Organize schedules for meetings between the divisions and consultants.

In the second phase, the project team conducts a strategic analysis of the external environment and the bank's internal state. Strategic analysis is a complex system of analyzing its components, involving labor-intensive analysis of the external environment, including macro and microenvironment analyses. Publications on strategic management offer the following methods for analyzing the external environment: macro-environment analysis, industry and competition analysis. The subjects of these analyses include: politics, economy, technology sectors; economic sectors; competitive forces in the market of goods and services. The analysis has three main objectives for the bank:

1. Assess the changes occurring in the region under review;

2. Identify potential threats to bank operations;

3. Identify potential opportunities for achieving strategic goals.

These objectives are achieved by consistently solving the following tasks:

- Considering the maximum possible number of factors relevant to the set goals and selecting the most important from the perspective of impact on the final goals;

- Assessing the current state of factors and their future development prospects;

- Determining the current and future state of factors as potential threats or opportunities for the bank.

The bank's internal analysis is conducted to identify its competitive strengths, the advantages that allow the bank's successful development, and the weaknesses hindering the bank's development. Particular attention is given to analyzing and adjusting the financial model according to forecast and actual indicators. Financial indicators represent the financial cycle from the inflow of funds to earning revenue from active operations.

In the third phase, an approach to planning bank operations within the framework of the expense optimization program is implemented, which involves a continuous process of assessing the level of products/services, methods of work, and identifying, learning, and assessing the best practices. Based on the results, benchmarking, i.e., comparison, is conducted. It is worth noting that for many banks, benchmarking is not new, as it is conducted as part of competitive analysis. The purpose of benchmarking is to reliably determine the likelihood of business success based on research. For this, it is necessary to compare the best practices in the banking sector in terms of overall bank operations and business directions using the Top 50 and Top 100 indicators of Uzbek commercial banks and implement these practices as standards and guidelines.

In the fourth stage, the project team develops a set of measures to reduce each category of administrative-economic expenses. In the next stage, the project team conducts an analysis of staffing costs and the bank's organizational structure. In a modern bank, employee costs account for 50-70% of the total bank's expenses. It is known from banking practice that banks seeking to reduce employee-related expenses achieve their goals through three methods:

1. Reducing employees by a uniform percentage;

2. Eliminating organizational inefficiencies;

3. Reducing departments.

The expected changes in technology and banking operations will significantly increase productivity and the efficiency of management systems, creating opportunities to release significant labor resources. In many cases, increasing productivity also allows for the optimization of the number of bank employees.

Conclusions and Recommendations. Some conclusions must be drawn: assessing the expenses of a commercial bank is a critical issue in banking operations, and its solution allows banks to have timely financial information about the state of their economic activities, overcome the high growth rates of administrative and economic expenses, and prevent misuse of funds.

To increase bank profitability, the following can be implemented:

- Modernization, i.e., simplified, parallel, and automated processes help organizations succeed.

- Reassessing risks.

- Developing electronic channels.

- Accounting for human capital.

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