

RESEARCH OF COMPONENTS OF THE SYSTEM OF BANK DEPOSIT MANAGEMENT

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Abstract

The article proves the necessity to study the components of the system deposit management in a bank. It is defined methods and techniques to attract funds from deposit sources, which play a crucial role in the formation of resources and bank's position on the deposit market.

Keywords: Deposit Management, Debt Resources, Deposit Rate, Pricing Methods, Non-price Methods

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1 Introduction

One of the global reasons of the crisis situation of many Ukrainian banks is wrong or not enough effective deposit management because deposit resources are one of the most important factors of economic growth and bank development. The research of components of bank deposit management is seen as one of the main factors of raising banking effectiveness. That is why the problems connected with effective bank activity mostly depend on implementation of modern effective system of deposit management.

Concepts connected with problems of bank deposit activity are changing and becoming more complicated together with the changes of conjuncture of loan circulation.

The formation of deposit base of commercial banks has been given a lot of attention in the works of national and foreign scientific workers and bankers-practitioners.

The most important works on learning deposits as a part of resources of modern banks were written by the following economists: N. A. Abzalava [1], M. Alekseenko [2], O. Vasyurenko [3], A. Vozhzhov [4], Z. Garbar [5], I. I. Dyakonova [6], V. Mischenko [7], A. Moroz [8], M. Savluk [8], I. Salo [9], S. Frolov [10], F. Shpyg [11] and others.

In the works of the mentioned above authors the peculiarities of forming bank resource base have been researched, the main problems of modern national banks have been shown, the management of deposit portfolio, transformation of deposits on demand into stable resource bank base have been researched, the methods of managing bank resource base have been analysed. However, the questions on the essence of the system of deposit management and its components require further discussion.

The purpose of research is working out some theoretical and methodical guidelines and practical recommendations on improving the system of bank deposit.

2 Main results of the research

The target of bank deposit management is providing enough money on current and time deposit bank accounts to fulfill active operations on favourable terms for the bank, in volume and order defined by the legislation. This target is fulfilled due to the effective function of the system of deposit management.

We suggest looking at the system of bank deposit management as a complex of interdependent elements, which in the process of interaction cover the action of mechanisms of their own interrelations, fulfill the function of the rational formation of bank deposit base and is aimed at supporting and raising the effectiveness of bank activity.

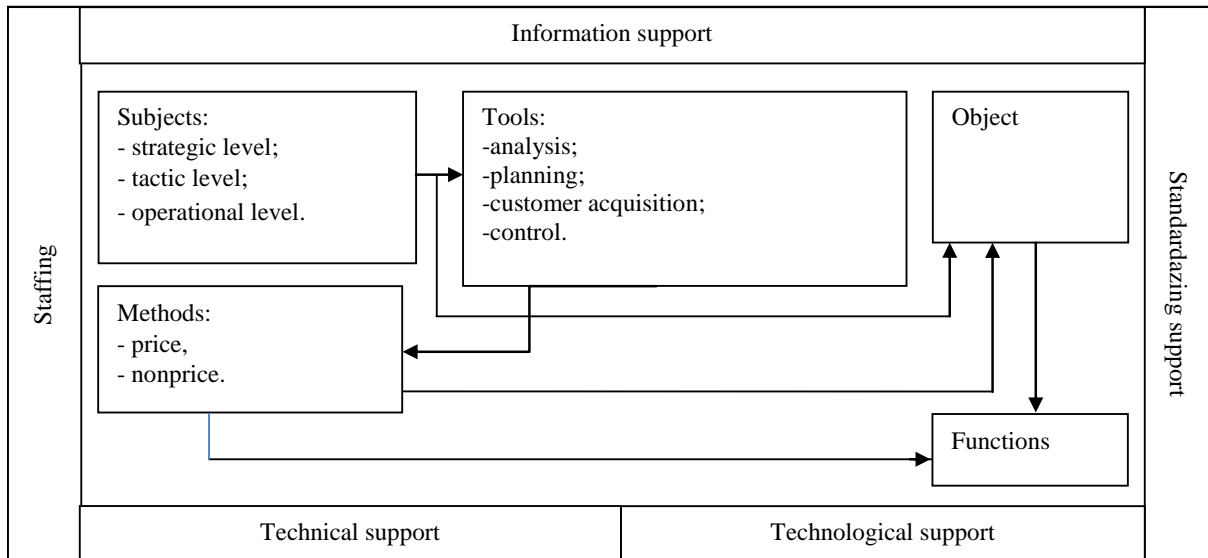
The system of deposit management includes the definition of object, subject, tools, methods, principles, functions of deposit management and a supporting subsystem. Schematically this system is shown in Figure 1.

The object of management is a managed system, which covers the bank deposit policy, a level of marketing researches of bank deposit services and a level of qualification of bank management, the policy of sale of deposit services, communication policy, organizational structure of the bank, the bank image, financial engineering, the size of interest rates, information resources, material resources [6].

The subjects of managing deposit resources on the strategic level are the supervisory committee, the board of directors, the asset-liability management committee, the internal audit service, the fee committee; on the tactic level they are managers of branches, business-lines, the principal auditor; on the

operational level they are managers of divisions, departments (that are part of a certain business line), workers of front and back offices, whose competence is to take managerial decisions.

Figure 1. System of deposit management



Source: worked out by the author

The Supreme Authority of bank management is annual stockholders meeting. The supervisory committee of the bank supervises the work of the board of directors in the period between annual stockholders meetings.

The supervisory committee of the bank considers all questions, which should be discussed at the annual stockholders meeting; appoints and dismisses the members of the board of directors, if the chair of the board asks to do that, and approves regulations for the board of directors. It also defines the external auditor, establishes the procedure of audit and control for financial and business transactions of the bank, considers long-range business plans of the bank; makes decisions on setting up, reorganizing and liquidating sister companies, branches and rep offices and approves their statutes and regulations.

The body of executive power of the bank is the board of directors, which does everyday bank management and accepts responsibility for its performance. The board of directors decides on questions of managing bank separate divisions, organization of bank transactions, money saving, accounting, internal control, considers and approves internal bank documents [3, 4].

The structure of subjects for managing raised money from deposit sources is given in Figure 2.

The organizational support of managing the inviting of resources to the bank from deposit sources is done on strategic, tactic and operational levels.

On the strategic level the management is given by:

- annual stockholders meetings where the main directions of deposit bank activity are defined and the performance reports are approved;

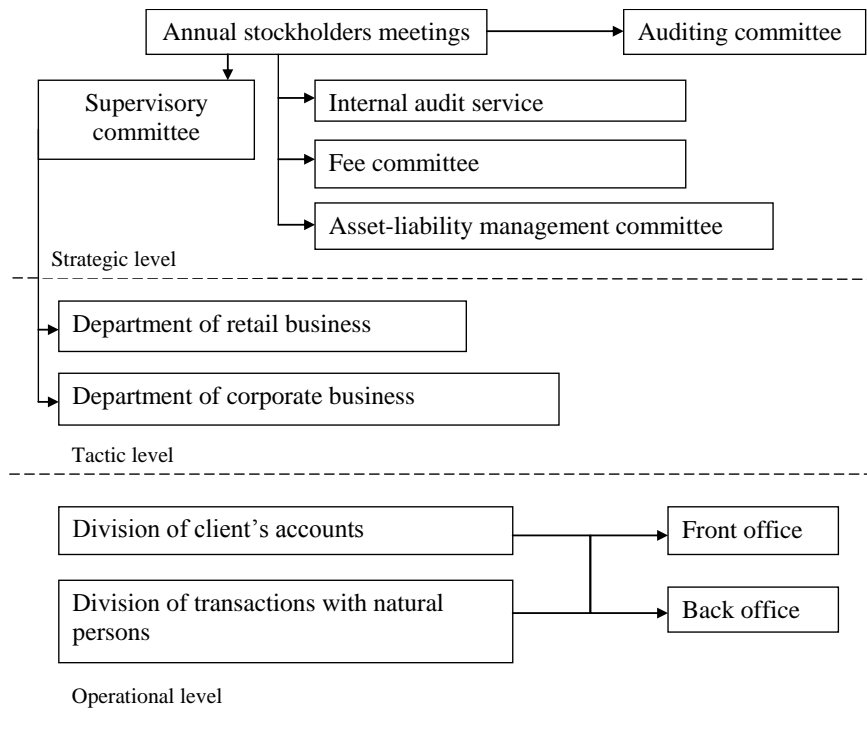
- auditing committee, the function of which is to supervise how the bank follows legislation and regulations, which regulate deposit activity;

- supervisory committee, which should analyse the process of fulfilling plans on fund raising from deposit sources and require from executive bodies to explain the gap between planned and factual volumes, as well as approve the main characteristics of bank products, general and pricing interest policy of the bank in the area of fund raising. It also confirms marginal interest rates at resources that are raised for the specific term (as a rule – a quarter) and individual interest rates at specific client’s accounts [6];

- Asset-liability management committee, which on a monthly basis considers the cost value of deposit resources and decides on the policy of interest margin, considers questions of correspondence of terms of assets and liabilities and gives recommendations to corresponding bank divisions on liquidating discrepancies in time that appear; defines the terms of raise and distribution of bank resources; agrees the terms of new kinds of deposits, changes in existing terms; works out and implements new technologies and bank products, which allow to give all kinds of services in all bank divisions on hand and to the highest standard [3];

- Fee committee, which on a monthly basis analyses the ratio of cost value of deposit services to market competitiveness of existing fees [6].

Figure 2. Structure of bodies (divisions) of managing deposit resources



Source: compiled by the author on the basis of the data from registered sites of Ukraine [9-18]

On the tactic level management is done with the purpose of improving the rules and the order of doing deposit transactions, improving the work of banking staff that deal with liability transactions, search for new forms of work with clients, decreasing the probability of risk and irrational decisions.

Departments of one-man business and corporate business work out new products and give them for approving by the board of directors, instruct bank institutions on standard contracts, offer ALCO individual terms of serving bank clients (on the basis of request of branches), offer ALCO new deposits and changes for the existing kind of deposits.

On the operational level the management is given by: branch managers, managers of departments (deposit, clearing and settlement transactions), workers of front and back offices.

On the operational level the main functions are broadening a range of deposit services and diversification on the sum, term and other features, the package serving of clients, an increase in deposit services.

In the process of forming resources from deposit sources an important role is played by the tools of managing deposit resources:

– analysis (researching «the behavior» of money on client's accounts);

– planning – a choice of bank strategy on the market of deposit services. Alternative strategies of fund raising on current and deposit accounts of natural and legal persons are focused on VIP-clients or focused on increasing the number of clients. Having

chosen the work strategy, the manager solves the following tasks: working out an effective marketing system with specific financial privileges, scaled by the level of the importance of the client for the bank; organization of partnership with as many clients as possible with the purpose of improving bank opportunities to plan the flow of funds on its accounts; doing statistical accounting and analyses of certain groups and the whole volume of current accounts; calculation of anticipated value of fixed residual of money, a mechanism how to form it, change trends and possible variations in time, regular updating a list of services; developing bank sale network [8];

– customer acquisition [5]. For the optimal structure, volume and level of costs on deposit commitments the manager uses different methods of fund raising, which in general are combined into two groups: price methods of management and nonprice methods of management. In banking practice the following methods of forming pricing of deposits are used: setting interest on deposits for achieving market penetration; provisory pricing; pricing focused on inviting VIP clients; multiple way of pricing; pricing on the basis of market rates. Nonprice methods of bank managing the raised money are based on using various means of motivating clients, who are not directly connected with the change of the level of deposit rates [19];

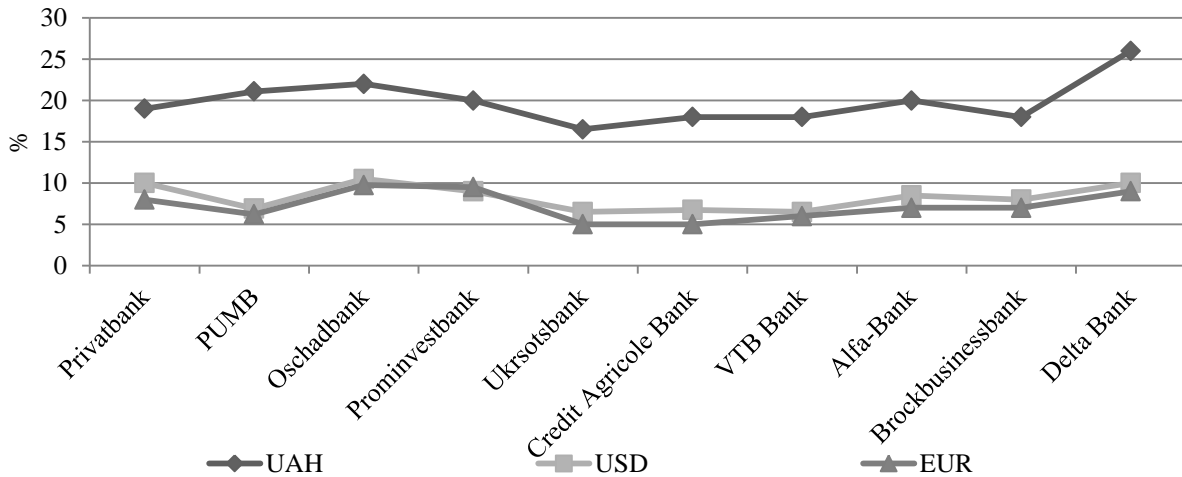
– control.

Control of deposit transactions of bank institutions for its relevance to the deposit policy is done by:

–risk management (deals with questions of relevance of costs of raised money to the level of return on bank assets);
 –one-man business management (deals with questions of adherence to standard deposit covenants);

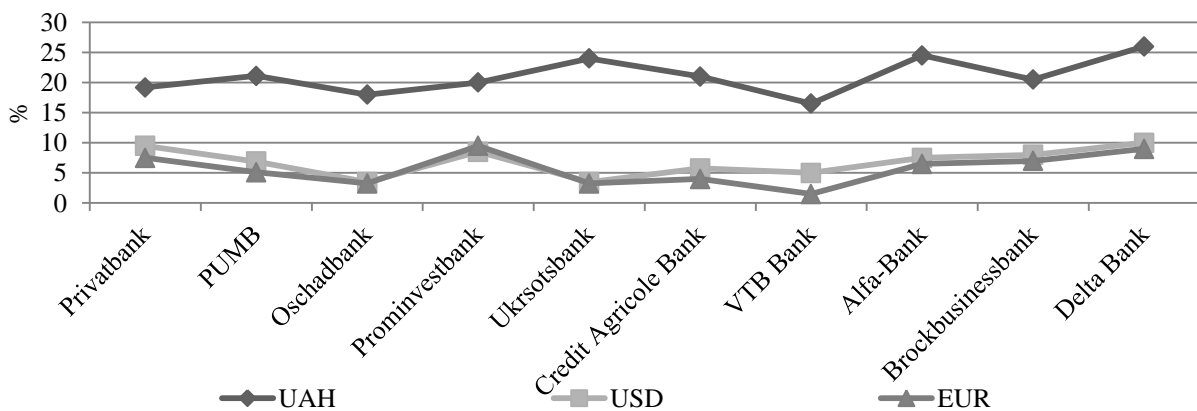
–corporate business management (deals with questions of adherence to standard deposit covenants);
 –the service of internal audit (internal audit of regulatory compliance).

Figure 3. Dynamics of deposit rates for long-term deposits of the 10 biggest commercial banks in Ukraine (on 01.01.2013, %)



Source: prepared by the author on the basis of the data from registered sites of banks [9-18]

Figure 4. Dynamics of deposit rates for short-term deposits of the 10 biggest commercial banks in Ukraine (on 01.01.2013, %)



Source: prepared by the author on the basis of the data from registered sites of banks [9-18]

To improve the effectiveness of the deposit activity and to regulate the internal bank behavior to manage its activity, the bank uses internal regulatory documents that are based on normative acts of Verhovna Rada of Ukraine, Cabinet of Ministers of Ukraine and the National Bank of Ukraine.

While forming deposit resources the bank defines the place and role of deposit resources in its own liabilities. Furthermore decision making is defined by the general bank strategy on managing assets and liabilities. Depending on the conditions which are on the market as well as bank own possibilities on fund raising the strategy of fund raising and managing bank deposit resources is been chosen. The main target here is to reach the optimal

correlation between stability and resource costs of the bank.

To solve this task the bank uses the means which make the complex analysis of the raised funds and use different methods of fund raising. Banks offer clients the effective use of temporarily surplus funds, that is put them on deposit accounts with different maturity periods and offer to open a deposit account in hryvnyas, US dollars or euros.

The analysis of interest rates of the 10 biggest Ukrainian banks shows that in today's conditions the average interest rates for long-term deposits in hryvnyas fluctuate from 16.5% to 26%, in US dollars 6.5%-10.5%, in euros 5%-9.75%. This situation depends on the term, easy terms of payments (pension

deposit, till full age deposit, deposit for loyal bank customers and others), deposit amount and others. Interest rates for short-term deposits in hryvnyas fluctuate from 19.2% to 26%, in US dollars 3.5%-10%, in euros 3.25%-9.5%. For the optimal structure, volume and level of costs for deposit liabilities the bank management uses price and non-price methods of fund raising.

The interest policy on raising time money of customers is approved by the fee committee on request of departments of one-man and corporate business.

While setting prices for deposits banks use more often the method of provisional pricing, which involves setting interest rates for deposit depending on its terms. According to the bank accounting policy the calculation of effective and full interest rate is compulsory.

The effective interest rate (EIR) is defined and used to account deposit operations (definition of amortised cost and book value of deposit, calculation of interest bearing costs from deposits). For the balance on client's accounts (money at call) the effective interest rate is not calculated and not used. The calculation of EIR on the financial instrument with two money flows can be given using equation 1.

$$EIR = \left(\frac{D}{Dy} \sqrt{\frac{AS}{PS}} - 1 \right) * 100\%, \quad (1)$$

where PS is the primary sum of the financial instrument, the sum of which is borrowed for deposit operations (nominal value of the financial instrument taking into account the sum of discount (premium) if they have it), hryvnyas;

AS is the additional sum of the financial instrument on the expiry date of the contract, that is nominal value plus interest, hryvnyas;

D is the number of days of the financial instrument contract duration;

Dy is the number of days in a calendar year, in which the calculation of the effective interest rate is done.

The full interest rate (FIR) is calculated for operations connected with retail and corporate deposits. The full interest rate is calculated for each separate financial instrument when it is firstly approved on the basis of the contract terms and is recounted if the level of costs is changing.

Taking into consideration variable costs for the financial instrument and the weighted sum of the remaining amount on financial instrument the full interest rate is calculated:

$$FIR = \frac{TE \times Dy \times 100}{Dp \times Bw}, \quad (2)$$

where FIR is the full interest rate on financial instrument;

TE is total expenses of the financial instrument;

Dy is the number of days in a year;

Dp is the number of days in the period of inviting the deposit;

Bw is weighted loan balance.

If the conjuncture of money resources changes, the bank has the right to renegotiate the interest rate in the contract if this provision stipulates it. The bank informs a depositor through mass media about changes of the rate of interest that is calculated. The interest rate is considered accepted if during the period stipulated in the corresponding clause of the contract, the depositor does not apply for the bank to break the agreement. The withdrawal of the deposit sum (account closing) or the review calculation of deposit is done on client's written application [7].

Non-price methods of bank managing raised funds are based on using various means of motivating clients that are not directly connected with the change of the level of deposit rates.

These means are brand advertising and advertising of particular deposit products, a better level of services, expanding a range of bank services and accounts, a full package of services, drawing a lottery on an ongoing basis.

When the competition in banking is aggravating bank management pays particular attention to non-price methods because the raise in deposit rates has its limitations and cannot be used all the time.

The essence of bank deposit management is shown through its functions: planning, organization, motivation and control.

As for the subsystem of supporting the management with raised funds from deposit sources, it includes information, standardizing, staff, technical and technological support.

Information support is divided into:

– external (information about the management of raised resources from deposit sources can be received from the sites of competitors, published materials, using economic espionage, hearsay, as well as statistics on banking and economy of the country in general, from information about the state of social, political, legal spheres and the state of world economy);

– internal (plans, reports, verification details and others).

Standardizing support is divided into:

– external (that is all standard regulations on managing fund raising from deposit sources, namely: Constitution of Ukraine, Laws of Ukraine, law books, Decrees of the Cabinet of Ministers of Ukraine and the National Bank of Ukraine, Decrees of the President);

– internal (bank deposit policy, provisions, memoranda, technical cards).

Staff support presupposes building the team of competent and inspired employees who accomplish the targets of the bank deposit activity effectively and efficiently [6].

The subsystem of technical support is a set of hardware, software and telecommunication equipment for collecting, processing and exchanging information with internal and external users.

Today the bank technical support consists of powerful computers with the server architecture and PC for workstations of users, modems, routers, multiplexors, data links, UPSs, scanners, printers, net adapters and wiring hubs.

Today commercial banks offer different kinds of deposits with the purpose to raise available money in the bank. Various technological approaches to organize the work with deposits are suggested. The first classical approach is when the depositor is suggested the saving book to do operations and accounting on it while opening the account. The second approach is when the depositor is given plastic money to serve the deposit account. The third approach is when we talk about deposits that have peculiarities of securities, for instance a saving deposit certificate. That is why this subsystem is connected with subsystems of managing cash payment, transaction bank day and paying plastic money with pay cards [5].

3 Conclusion

To sum up, analyzing what was written above we can make the following conclusions:

1. The research of the components of the system of deposit management is the objective necessity on the way to raise the effectiveness of banking. The effective system functioning will provide making optimal managerial decisions, supporting the sufficient level of bank liquidity, growth in volumes of customers that will benefit to raise the stability of the bank resource base.

2. The system of bank deposit management is a combination of interrelated elements which in the process of their interaction support the action of the mechanism of their own interrelations, realize the function of rational forming the bank deposit base and is focused on supporting and raising bank effectiveness.

3. The system of bank deposit management includes the definition of object, subject, tools, methods, principles, functions of deposit management and the support subsystem.

4. For the optimal structure, volumes and the level of costs for deposit resources the bank management uses price and non-price methods of fund raising. Nowadays price methods of inviting deposit resources are used more often.

5. The system of deposit management should cover complementary and interconnected subsystems which provide raising enough money on current and time deposit bank accounts to do active bank transactions on beneficial terms for the bank

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