



IMPROVING THE MECHANISM FOR FORMULATING AND MANAGING DEPOSIT POLICY IN COMMERCIAL BANKS

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ABSTRACT	KEY WORDS
This article examines the essence, structural design, and operating procedure of the mechanism for formulating and managing deposit policy in commercial banks. The mechanism is substantiated as an integrated system comprising regulatory and legal, institutional, instrumental, and information-analytical blocks. The powers of management bodies are systematized, and the stages of the continuous deposit policy management cycle are described. The article considers funds transfer pricing, interest-rate setting, systems of limits and stress testing, as well as the management of customer segments and distribution channels. Criteria for assessing the maturity of the mechanism and typical shortcomings encountered in practice are identified, and proposals and recommendations aimed at addressing them are developed.	Commercial banks, deposit policy, deposit portfolio, management mechanism, Asset and Liability Management Committee (ALCO), funds transfer pricing, interest rates, limit system, stress testing, liquidity, depositor behaviour, monitoring, financial stability.

Introduction

The reforms being implemented in the banking system of the Republic of Uzbekistan, particularly within the framework of the Banking System Reform Strategy for 2020–2025, set out tasks to transform state-owned banks, strengthen competition in the banking services market, and increase public confidence in the banking system [1]. In addressing these tasks, the formation of commercial banks' resource base, primarily through customer deposits, is of particular importance. Deposits are a major source of bank liabilities, and their volume, structure, maturity, and cost determine a bank's lending capacity, liquidity, and, ultimately, financial stability.

Competition among banks for deposit resources is intensifying, while the development of digital channels has made it significantly easier for depositors to move funds from one bank to another. Under these conditions, the theoretical foundations of deposit policy—its essence, the classification of resources, and portfolio management criteria—do not operate automatically. They must be translated into day-to-day management decisions through a bank's specific organisational structure, procedures, and instruments. This is the function performed by the mechanism for formulating and managing deposit policy.

In practice, however, although many banks formally have a deposit policy document, it does not always exert sufficient influence on day-to-day decisions; interest-rate decisions may be made simply by following competitors, while deposit mobilisation activities may be assessed only by volume indicators. Therefore, providing a scientific rationale for the structural design of the mechanism for formulating and managing deposit policy in commercial banks and developing directions for its improvement remain relevant issues.

Literature Review

The formation and management of commercial banks' resource bases have been widely studied by both foreign and domestic economists. In his work *Financial Management in Commercial Banking and the Financial Services Industry*, Joseph F. Sinkey considers bank resource management as an integral part of asset and liability management (ALM) and substantiates the need to determine the internal value of resources within the bank—that is, to measure the economic performance of funding and asset-deploying units through funds transfer pricing [5]. Under this approach, the margin of a funding unit is determined as the difference between the transfer rate and the rate paid to depositors, net of the operating costs of deposit mobilisation.

Peter S. Rose views the essence of asset and liability management as the formulation and implementation of strategies that align the structure of a bank's balance sheet with its strategic objectives [6]. In his view, a bank must simultaneously meet its obligations to customers on time, thereby maintaining liquidity, while also achieving an adequate level of profitability in the interests of shareholders. This demonstrates that deposit policy cannot be managed in isolation from the bank's overall financial management.

In the textbook *Banking*, edited by O. I. Lavrushin, bank management is interpreted as a system comprising management entities, the methods and instruments they apply, and regulatory and information support [4]. This approach provides a methodological basis for examining the deposit policy management mechanism through separate but interrelated blocks.

T. Koch and S. MacDonald emphasise the need to account for the marginal cost of funds when pricing bank deposits and to identify the stable or "core" component of deposits [7]. A. Saunders and M. Cornett, in turn, substantiate the importance of limits, stress tests, and contingency funding plans in managing liquidity risk associated with unexpected deposit outflows [8]. The Basel Committee on Banking Supervision likewise identifies diversification of funding sources, regular stress testing, and maintenance of a contingency funding plan as essential elements of bank liquidity-risk management [9].

Among domestic economists, Y. Abdullayev has studied the formation and efficient use of bank resources as one of the key areas of banking activity [3]. At the same time, the domestic literature has focused mainly on the content of deposit policy and types of deposits, while the structural design of the mechanism for its formulation and management, the management cycle, and the allocation of responsibilities have not been sufficiently systematised. This article seeks to address that gap.

Research Methodology

The study employs a systems approach, structural-functional analysis, comparative analysis, analysis and synthesis, induction and deduction, abstract-logical reasoning, and graphical and tabular methods. To illustrate the logic of the funds transfer pricing mechanism, a modelling method based on a

hypothetical example is applied. The regulatory and legal basis of the study consists of legislation of the Republic of Uzbekistan governing banking activities and relevant Presidential decrees [1; 2; 10].

Analysis and Results.

In economic literature, a management mechanism is generally understood as a set of interrelated elements—management entities, the methods and instruments they use, and regulatory and information support—that together ensure the achievement of a stated objective [4]. Applying this general approach to the subject of the present study, we propose the following definition: the mechanism for formulating and managing deposit policy is a system of interrelated actions carried out by a bank's governing bodies and organisational units, using regulatory documents, economic instruments, and information-analytical tools, with the aim of achieving the target parameters of the deposit portfolio through a continuous management cycle.

The structural design of this mechanism can be represented by four interrelated blocks: the regulatory and legal support block, the institutional block, the instrumental block, and the information-analytical block. Their composition and interrelationships, together with the management cycle through which the mechanism operates, are shown in Figure 1. The division into blocks is analytical in nature; in practice, they function in close interconnection: regulatory documents define institutional responsibilities, institutions apply management instruments, and the effects of those instruments are monitored through the information system and become the basis for subsequent decisions.

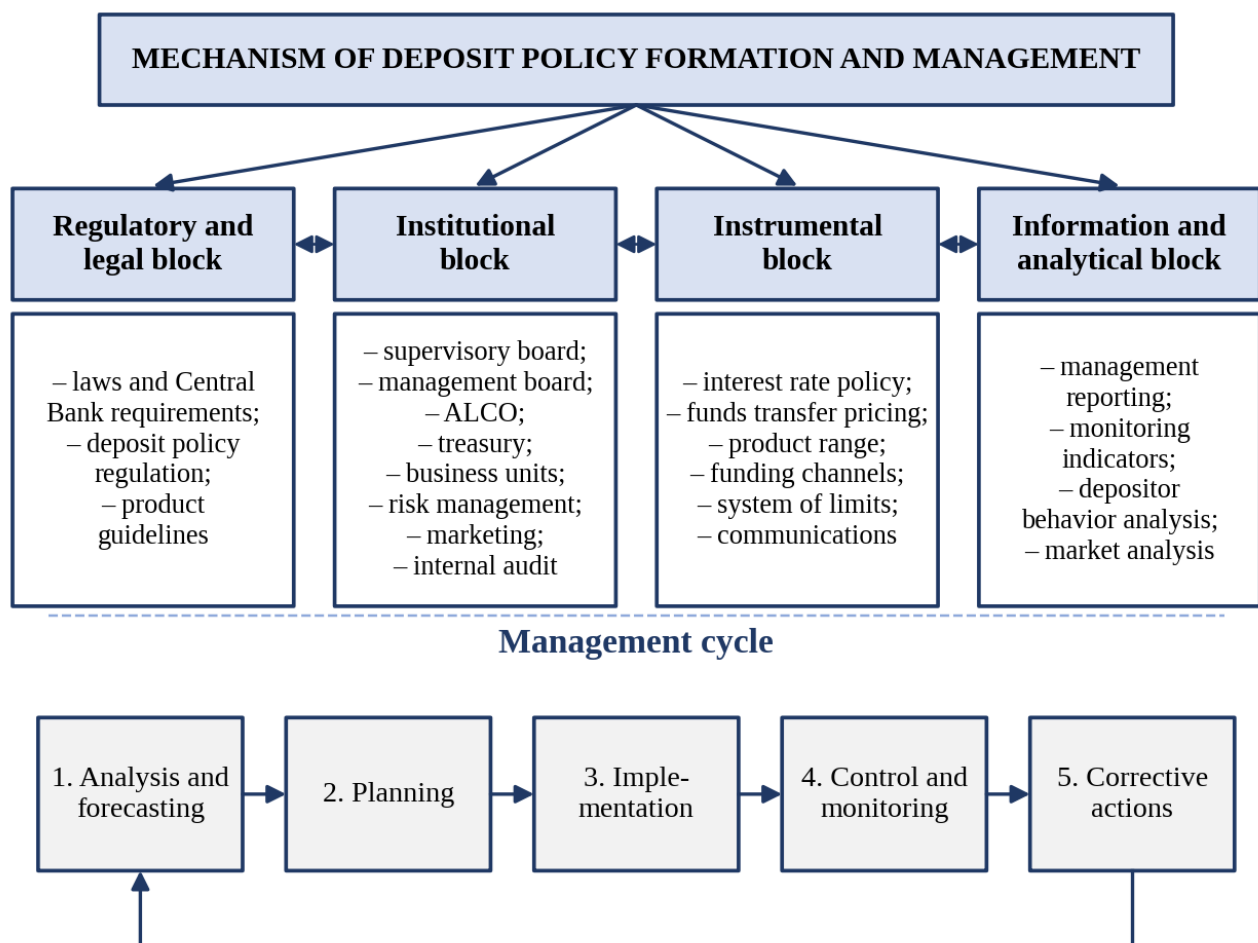


Figure 1. Structural design of the mechanism for formulating and managing deposit policy

The regulatory and legal support block consists of two levels. The external level comprises rules established by the state, including laws regulating banking activities [2], Central Bank requirements concerning mandatory reserves, liquidity, and depositor disclosure, as well as documents governing the deposit guarantee system [10]. This level establishes a common “playing field” for all banks. The internal level consists of documents adopted by the bank itself, the core of which is the internal regulation on deposit policy. A well-designed regulation should specify the purpose, objectives, and principles of deposit policy; the allocation of powers among governing bodies and organisational units; the types of deposits offered and their characteristics; the procedure for setting and changing interest rates; the system of portfolio limits; monitoring indicators; reporting frequency; and the persons responsible.

The regulation is supplemented by detailed procedures for each product, standard-form contracts, and staff instructions. The completeness and currency of the internal regulatory framework are initial indicators of the quality of the management mechanism. An undocumented policy becomes dependent in practice on the personal views of individual managers and creates operational and legal risks for the bank.

The effectiveness of the institutional block depends on a clear allocation of responsibilities. The principal entities involved in deposit policy management and their powers are systematised in Table 1.

Table 1. Entities involved in deposit policy management and their principal responsibilities

Management entity	Principal responsibilities in deposit policy
Supervisory Board	Approve the strategic directions of deposit policy and the boundaries of the bank’s acceptable level of risk; oversee the performance of executive bodies.
Management Board	Approve the internal regulation on deposit policy; allocate powers and resources; make strategically significant product and pricing decisions.
Asset and Liability Management Committee (ALCO)	Set target parameters and limits for the deposit portfolio; review interest rates periodically; ensure maturity and currency alignment between assets and liabilities.
Treasury	Operate the funds transfer pricing system; manage current liquidity; balance deposit funding with wholesale funding sources.
Retail and corporate business units	Sell deposit products; develop customer relationships; meet deposit mobilisation targets; provide feedback on customer needs.
Risk Management	Monitor compliance with limits on a daily basis; conduct stress tests; monitor depositor-behaviour models; maintain early-warning indicators.
Marketing	Analyse the deposit market and competitors’ offers; segment customers; implement product-promotion and communication programmes.
Internal Audit	Independently assess whether the deposit policy management mechanism operates in compliance with internal documents and procedures.

As Table 1 shows, management is carried out at two levels. At the strategic level, the Supervisory Board and the Management Board determine the general direction of policy and the bank’s risk limits, while at the operational level the central coordinating role is performed by the Asset and Liability Management Committee (ALCO). At ALCO meetings, the condition of the deposit portfolio is considered jointly with the structure of assets, liquidity indicators, and interest margin, thereby linking deposit policy with the bank’s overall financial management.

The allocation of responsibilities should also reflect the “three lines of defence” principle: the first line consists of business units working directly with customers; the second line is risk management, which independently monitors limits and risks; and the third line is internal audit, which periodically assesses the entire mechanism. It should be noted that participants’ interests objectively differ: business units tend to seek higher mobilisation volumes, treasury seeks to reduce the cost of funds, and risk management tends to impose constraints. The purpose of the management mechanism is not to suppress this natural tension, but to balance it through ALCO deliberations and clear rules so that it serves the bank’s interests.

The dynamic aspect of the mechanism is represented by the management cycle (the lower part of Figure 1). At the first stage—analysis and forecasting—the condition of the deposit market, competitors’ offers, forecasts of macroeconomic indicators, the state of the bank’s own portfolio, and depositor behaviour are analysed. At the second stage—planning—the target parameters of the portfolio are determined on the basis of the analysis, including volume, structure, average cost, and stability indicators by year and quarter; these are linked to the bank’s financial plan and the budget for asset operations. At the third stage—implementation—products are launched, sales plans are distributed across channels, and the staff incentive system is activated. At the fourth stage—control and monitoring—actual indicators are compared with target parameters and limits. At the fifth stage—corrective action—interest rates are adjusted, product terms are revised, or marketing activity is intensified depending on the causes of deviations, after which the cycle returns to the analysis stage. In practice, different layers of the cycle operate at different frequencies: strategic directions are reviewed annually, tactical parameters quarterly, and interest rates whenever market conditions require. The core of the instrumental block is the funds transfer pricing system, because it makes it possible to measure the economic effectiveness of deposit mobilisation. Funds transfer pricing creates a notional internal market for resources within the bank: a deposit-mobilising unit “sells” funds to treasury at an internal transfer rate, while a lending unit “buys” them at that rate. The margin of the funding unit is therefore determined as the difference between the transfer rate and the rate paid to depositors, less the operating costs of mobilisation [5]. Transfer rates should be set as a maturity-differentiated curve: assigning a higher transfer rate to longer-term funding creates an economic incentive for business units to attract more stable, long-term deposits. In a bank without funds transfer pricing, units are assessed only by the volume of deposits attracted, which can lead to the uncontrolled accumulation of expensive and unstable funding.

The logic of funds transfer pricing can be illustrated with a hypothetical example (Table 2). Assume that the transfer rate for twelve-month funds is set at 20% per annum, while the retail unit attracts a deposit of the same maturity at 18%, with an operating mobilisation spread of 1 percentage point. At the same bank, the transfer rate for demand balances, taking into account their conditionally stable core, is set at 13%, the interest paid is 1%, and the servicing spread is 3%.

Table 2. Determining a business unit’s margin using funds transfer pricing (hypothetical example)

Indicator	12-month term deposit	Demand balances
Internal transfer rate	20.0	13.0
Rate paid to depositor	18.0	1.0
Operating mobilisation / servicing spread	1.0	3.0
Business unit margin (percentage points)	1.0	9.0

The table shows that while the unit margin on a term deposit is 1 percentage point, it reaches 9 percentage points for demand balances. Thus, attracting and retaining low-cost transactional balances generates a substantially higher internal economic contribution for the bank than term deposits. However, because this contribution depends on the stability of balances, the transfer rate should incorporate a stability adjustment. In this way, funds transfer pricing reveals the actual economic contribution of products and business units and translates deposit-policy priorities into financial incentives. The existence and quality of a funds transfer pricing system can therefore reasonably be regarded as one of the criteria for assessing the maturity of the deposit policy management mechanism. The procedure for setting interest rates is a process that should be separately formalised within the management mechanism. Under sound practice, the process follows a defined sequence: marketing and treasury analyse market rates, movements in the policy rate, the inflation outlook, and the bank's funding needs and prepare a rate proposal; the proposal is discussed and approved by ALCO; and the approved changes are introduced simultaneously across all channels and communicated to depositors. A rate structure consisting of a base rate plus adjustments for maturity, amount, customer segment, and channel increases transparency in decision-making. Promotional rates require particular attention: although they can effectively attract new customers, promotions without limits on duration or volume may increase the cost of the portfolio uncontrollably and create a perception of unfairness among existing depositors. In addition, pre-defined criteria for reviewing deposit rates when the policy rate changes help prevent delays in decision-making.

Depositor disclosure and fair-practice standards are an integral complement to interest-rate policy. Increasingly complex deposit terms—tiered rates, different compounding frequencies, and recalculation upon early withdrawal—make it more difficult for depositors to compare offers correctly. Therefore, all products should disclose the annual effective interest rate based on a uniform methodology; unilateral changes to terms during the contract period should be strictly limited; and all penalties and restrictions should be disclosed clearly before a contract is signed. Advertising only the highest tier rate while concealing restrictions in fine print may generate short-term inflows, but later becomes costly through depositor dissatisfaction, early closures, and reputational losses. By contrast, fair and transparent disclosure builds trust capital and serves as one of the least costly instruments of non-price competition.

The limit system forms the risk-constraining component of the mechanism. Appropriate limits for the deposit portfolio include:

- a concentration limit on the share of the largest depositors (for example, the ten and twenty largest customers) in the total portfolio;
- a maximum exposure to a single depositor or a group of related depositors;
- an allowable share of demand deposits and other unstable funds;
- a limit on the share of foreign-currency deposits;
- limits on asset-liability maturity gaps across time buckets.

Limits should be monitored daily by the risk-management function, while approaching a limit should be escalated to management through an early-warning system. The limit system should be complemented by stress tests: portfolio resilience should be tested periodically under scenarios such as withdrawal of funds by the largest depositor, a rapid outflow of a specified share of deposits, or a sharp rise in market interest rates; based on the results, the contingency funding plan should be updated [8;

9]. This plan should predefine the sequence of funding sources to be used and the responsible persons in the event of a funding shortfall.

The part of the mechanism that directly interfaces with the market comprises management of customer segments, products, and channels. Segmentation groups depositors by income level, age, behaviour, and depth of relationship with the bank, enabling suitable products and communications to be developed for each group; customer relationship management (CRM) systems provide a data-driven basis for this work. Channel management should take channel economics into account: although the traditional branch channel is expensive, it remains important for complex products and customers who require a high degree of trust, whereas digital channels sharply reduce unit acquisition costs and expand geographic coverage. The staff incentive system is another important component of the mechanism: if remuneration depends only on volume attracted, employees may be incentivised to gather expensive, short-term funds or to sell products that are not suitable for customers. Therefore, sales performance indicators should include qualitative criteria such as the maturity and stability of funds attracted and customer satisfaction.

In customer management, the mechanism should cover the entire depositor relationship life cycle. At the acquisition stage, the main task is to secure the customer's first deposit through an offer and channel appropriate to the target segment. At the activation stage, the relationship should be deepened by connecting the new customer to other banking services—such as a payment card, mobile application, and automated payments—because funds held by multi-product customers tend to be the most stable. At the retention stage, the bank should proactively offer attractive renewal terms before deposit maturity and use loyalty programmes for long-standing depositors. The proposition that acquiring a new customer cost several times more than retaining an existing one is widely recognised in marketing practice. Finally, working with customers who have left—by analysing the reasons for attrition and making targeted win-back offers—can unlock hidden portfolio potential. Including measurable indicators for each stage, such as inflow of new depositors, activation rate, renewal rate, and attrition rate, in the monitoring system makes the mechanism manageable from a customer-relationship perspective.

The technological infrastructure of deposit operations forms the material and technical foundation of the mechanism, and its importance has increased sharply in recent years. The automated banking system should ensure reliable administration of deposit contracts, interest calculation, and reporting, while remote identification tools should allow customers to open a deposit through a mobile application within minutes without visiting a bank office. A unified data warehouse is essential for obtaining a complete view of all customer products and transactions and for conducting behavioural analysis. Another component closely linked to technological infrastructure is internal control and compliance: deposit operations must fully comply with anti-money-laundering requirements, and procedures for customer identification and detection of suspicious transactions must be embedded in the deposit mobilisation process. Although these requirements may appear to slow mobilisation, they protect the bank's reputation and the trust foundation of the entire deposit base. They should therefore be treated not as an external burden on deposit policy, but as an integral part of it.

The specific configuration of the mechanism should be adapted to the size and business model of the bank. In a large universal bank, all of the described elements—specialised committees, advanced funds transfer pricing, and multi-level limit systems—may operate in full. In medium-sized and small banks, they can be applied in a simplified form while preserving their substantive functions: the Management

Board itself may perform ALCO functions, while funds transfer pricing may be based on several benchmark rates rather than a full transfer-pricing curve. The key requirement is that the functions themselves must not disappear. In a bank of any size, measuring the internal cost of funds, constraining risk through limits, and documenting decisions constitute the minimum mandatory core of the mechanism. The presence of this core protects even a small bank from entering rate wars without adequate analysis and from making its portfolio excessively dependent on one or two large depositors. Another aspect of the mechanism's configuration is the allocation of authority between head office and branches. Under a centralised model, rates and product terms are established exclusively by head office. This has advantages such as a uniform policy, strict control over funding costs, and simpler reporting, but it can slow adaptation to local market conditions. Under a decentralised model, branches are authorised to vary terms within a defined range. This allows a faster response to local competition, but creates the risk of customers shopping between branches for more favourable terms and of portfolio costs moving beyond effective control. A practical compromise is a hybrid approach: pricing decisions remain centralised, while branches are given authority over non-price instruments—such as service quality, local partnerships, and, subject to head-office approval, individual terms for selected large customers. The expansion of digital channels is naturally shifting this balance towards centralisation, because online products are inherently managed from a single point.

The information-analytical block links all elements of the mechanism much like a circulatory system. An effective architecture for management reporting has three layers: on a daily basis, liquidity conditions, major inflows and outflows, and compliance with limits are monitored; on a weekly and monthly basis, deposit flows, newly opened and closed deposits, average rates, and channel efficiency are analysed; and on a quarterly basis, the structural composition of the portfolio, deviations from target parameters, and the accuracy of depositor-behaviour models are assessed. The described monitoring system can therefore be represented as a three-layer structure according to monitoring frequency and level of aggregation (Figure 2).

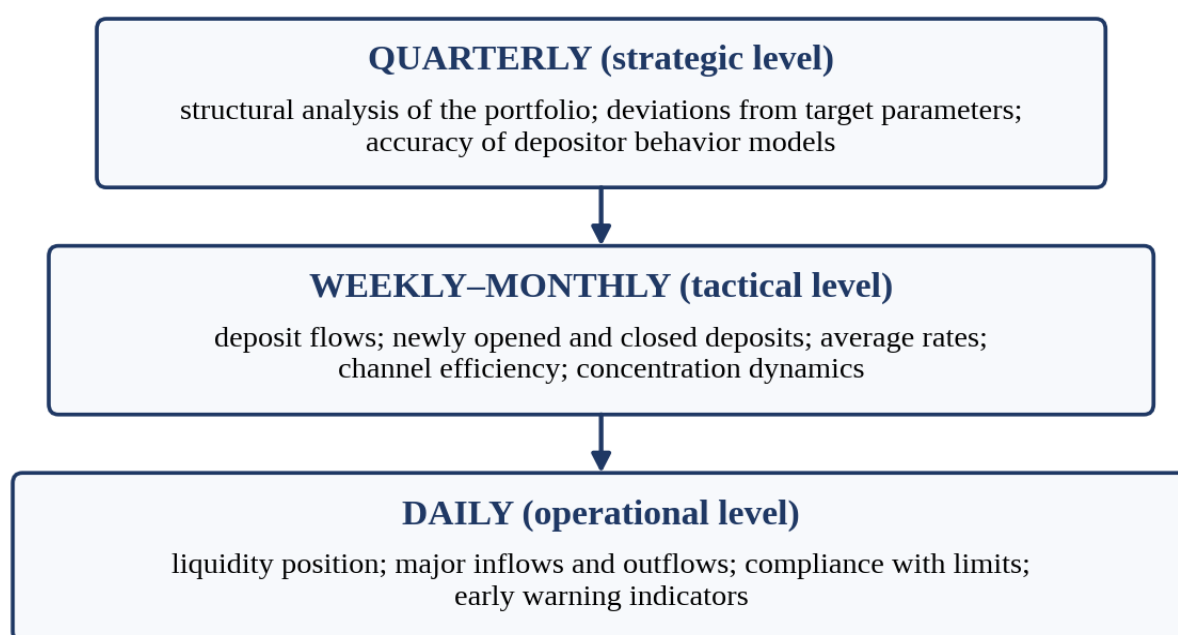


Figure 2. Three-layer system of deposit policy monitoring indicators

Source: developed by the author based on the research.

A separate analytical area is the modelling of depositor behaviour. Statistics on the renewal rate of term deposits, the frequency of early withdrawals, and the stable core of demand balances provide a basis for reliable forecasts for future periods. The quality of such analysis, in turn, depends on the completeness and consistency of data; fragmented information systems are therefore a significant factor reducing the effectiveness of the mechanism.

Based on the results of the study, the maturity of the deposit policy management mechanism may be assessed using the following criteria:

- the degree to which the actual parameters of the portfolio correspond to target parameters;
- the speed at which decisions are made in response to market changes;
- the coordination of actions among organisational units;
- the consistency of internal documents with actual processes;
- the effective operation of the funds transfer pricing and limit systems.

Typical shortcomings observed in practice include the formal existence of a deposit policy document that has little influence on day-to-day decisions, the absence or overly simplified use of funds transfer pricing, monitoring limited to volume indicators, and interest-rate decisions made merely by following competitors. Addressing these shortcomings represents an important organisational reserve for improving the effectiveness of deposit policy.

Conclusion

In conclusion, the mechanism for formulating and managing deposit policy requires the coordinated operation of the regulatory and legal, institutional, instrumental, and information-analytical blocks within a continuous management cycle. The findings show that the effectiveness of the mechanism is determined not by the mere existence of individual elements, but by their interconnection, the clear allocation of responsibilities, and the analytical foundation of management decisions.

Based on the analysis, the following proposals and recommendations were developed to improve the deposit policy management mechanism in commercial banks:

- first, clearly define target parameters, the allocation of responsibilities, the procedure for setting interest rates, limits, and monitoring indicators in the internal regulation on deposit policy, and update the regulation regularly;
- second, introduce a funds transfer pricing system differentiated by maturity and incorporating a stability adjustment, and assess business units not by the volume of deposits attracted but by their net economic contribution;
- third, formalise interest-rate setting within ALCO, predefine criteria for reviewing deposit rates when the policy rate changes, and limit promotional rates by duration and volume;
- fourth, supplement limits on concentration, the share of unstable funds, currency composition, and maturity gaps with stress tests and a contingency funding plan;
- fifth, incorporate qualitative criteria such as the maturity and stability of funds attracted and customer satisfaction into staff incentive systems, and monitor indicators across the entire life cycle of the depositor relationship;
- sixth, establish a management reporting system comprising daily, weekly-monthly, and quarterly layers based on a unified data warehouse, and implement depositor-behaviour modelling.

Overall, implementing these proposals in practice can strengthen banks' financial stability and expand their capacity to finance the economy by improving the stability of commercial banks' resource bases,

optimising the cost of attracted funds, and reducing liquidity risk. Further improvement of the mechanism may be pursued through comparative research with the practices of banks in developed economies.

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