

# A SWOP Analysis of the Commercial Banks

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## 1. The SWOP analysis

At present, the system of commercial banks comprises five state-owned ones, 36 joint stock ones, 29 branches of foreign banks and four banking joint ventures. Their legal capital has increased over years: by over three times in state-owned commercial banks in the years 2000-05; and over five times in joint stock banks in the same period. Many joint stock banks have legal capital of over VND500 billion.

Deposit in commercial banks in 2005 reached over VND600,000 billion increasing by 30 times higher than what mobilized in 1990 while their loan rose by some 40 times. The system has introduced more and more services and products to the domestic market producing many positive effects on the economic growth.

The performance of the system is improved remarkably. The ROE in certain banks passed the 20% mark while its bad debt reduced over years.

The system, however, contains many shortcomings and limitations that require strong and overall reforms. International agreements and WTO membership of Vietnam in the near future force the system to deal with foreign competition and it's hard for it to maintain its existing market share. In looking for strategy and solutions to the problem, we have conducted a poll among 100 employees in the banking system and gathered their opinions about strengths, weaknesses, opportunities and threats of the banking system that are as follows:

### a. Strengths:

- Network of branches all over the country (100%)

- Profound knowledge of the domestic market (100%)

- Most banking services buyers are its clients (100%)

- Controlling a big share in the market for banking services (100%)

- Its employees are devoted to their banks, hungry for, and able to learn, new knowledge and techniques (75%)

- Receiving great support from the SBV (80%)

- Favorably legal infrastructure (60%)

- Being on the modernization process (60%)

### b. Weaknesses:

- Managerial ability falls short of standards for modern banking services; the machinery is ineffective and clumsy (90%)

- Branding strategy is poor (90%)

- Quality of the human resource is low; brain drain is happening because of low salary (90%)

- Handling cost is high and profitability is low compared with banks in neighboring countries (70%)

- Services are not diverse enough to meet different demands by customers (80%)

- Lack of cooperation between commercial banks (50%)

- Main operation is supplying loans; both bad debt and risk degree are high (80%)

- Banking regulations are not consistent; market laws are not observed (80%)

- Most banks are of small scales and couldn't achieve well their business objectives (90%)

- The modernization is not carried out evenly in banks with the result that they couldn't cooperate in introducing new services and offering more benefits to their customers (80%)

### c. Opportunities:

- Having opportunities to attract capital and technologies; train human resource and make the best use of comparative advantages to compete against foreign rivals and enter into new market, thereby improving product and service quality (80%)

- Globalization accelerates the reform in the banking system, enhances the government's ability to control the system, and improves the legal infrastructure of the banking business in order to carry out commitments made by Vietnam to international agreements (95%)

- International integration allows commercial banks to learn from foreign experience in order to improve their managerial skills and service quality needed for maintaining their market shares (90%)

- International integration will accelerate the banking reform and development of the finance market and new banking products (100%)

- International integration allows local banks find footholds on the international finance market (60%)

- International integration offers opportunities for local banks to cooperate with foreign partners in doing business and controlling risks thereby enhancing their positions in international transactions, and attracting potential customers from abroad (70%)

- Presence of foreign rivals in Vietnam forces local banks to specialize in certain services and operations, and develop new products that foreign banks may introduce to Vietnam (80%)

### d. Threats:

- The open finance market will make number of big players in-



crease leading to keener competition against local banks (95%)

- Local banks will feel a need for better technologies and more reforms that requires a lot of money and efforts.

- The legal infrastructure for the banking business is not perfect while the market mechanism isn't well developed, which makes it difficult for local banks to integrate fully into the world market (100%)

- The profitability of local commercial banks is low in comparison with its Southeast Asian counterparts, which limit their ability to form contingency fund and increase their working capital (65%)

- The local banking system will be affected strongly by changes in exchange rates, interest rates and exchange reserves in the world finance market while it has to carry out what it promised in international agreements (65%)

- Commercial banks have invested too much in state-owned companies while most of these companies have poor performance and competitiveness. This situation means a great risk to commercial banks (75%)

- International integration will increase capital transaction and risks involved while the local banking regulations and supply of banking information are not appropriate to international practices (85%)

- Although local commercial banks have wide networks, their machinery is usually clumsy and ineffective with the result that their performance is poor in comparison with their regional counterparts (80%)

- Training and employing banking officials don't aim at developing new services and operations and researching and applying new technologies with the result that the local banking falls farther behind neighboring ones and use of cash is still widespread (85%)

- When the flow of foreign capital rises, the problem to the local banking system is how to make the best use of it because the local system will find it hard to compete against foreign banks in attracting potential customers (95%)

- The quality of the human resource and mechanism for encouraging employees to work harder are problem of greatest urgency because the brain drain

seems inevitable when the domestic market is open. Local banks must adopt new policies on salary and preferential treatment to their skilled employees (100%)

## **2. Some measures to enhance the competitiveness of the banking system**

- Accelerating the equitization program in the banking system in order to enhance its competitiveness.

- Encouraging and helping commercial banks to issues shares in the local stock market, and ASEAN ones if possible.

- Investing in developing an army of banking officials and ensure them reasonable pay.

- Commercial banks must improve quality of services supplied by their branches and diversify their services.

- Modernizing banking technologies in order to win customers' trust.

- Supervision must be carried out regularly in order to ensure safety for the whole system.

- Perfecting the legal infrastructure for the banking business with a view to making the system integrate more fully into the world market. ■



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