Measures to Enhance Financial Performance of Joint Stock Commercial Banks

by HOÀNG KIM LONG

1. Policy to use working capital

a. Capital for credits

- Classification of customers can be used as a basis for a policy on customers. Each class of customers enjoys a different credit limit and interest rate, thereby limiting risks. For example, a customer who borrows money and buy other services (such as current accounts, and paying for imports through banks, etc.) can be offered better treatment than ones who only borrow money.
- Different credit limits may be applied for different industries. For example, no more credits are offered to customers who trade in such commodities as fertilizers, plastics, clothing and aquatic product when they have borrowed up to the limit. This measure saves the bank from investing too much in a sole industry and helps it diversify their classes of customers.
- Supply of credit should match the bank's business circle and life circle of each product. For example, the credit supplied to fertilizer traders may increase before the harvest and decrease after the harvest. Similarly, loans supplied to trading companies in the last quarter of the year may be higher than ones in other quarters.
- Forms of loans should be diversified with a view to increasing the total sales and distributing the risks.
- Credit rating is an important task that should be carried out carefully before making decision on the supply of credit. The banks can also estimate potential customers be examining customers' business relations with their partners.

b. Capital for trade in foreign exchange

The bank should know for what purpose its money is used (paying foreign suppliers, trading for profit, or protecting customers' capital and investment, etc.) in order to ensure good financial performance and high degree of safety. The following measures are useful for achieving these aims:

- When trading the foreign exchange with banking institutions, it's necessary to limit the possibly highest loss level in order to protect profit already made or prevent further losses.
- Don't practice speculations because they are too risky for banking institutions.
- In certain cases, the bank can sell foreign exchange at lower prices in order to support foreign trade. In spite of losses in trade in the foreign exchange, the banks can retain customers' trust and preserve their prestige and public image.
- the banks should know that suppliers of foreign exchange for banks are exporters, importers, exchange transferring companies, inter-bank foreign exchange market and free market. Of these sources, export-import companies are the most stable and abundant one. The banks should develop close and long-lasting relations with them.
- As for exchange transferring companies, the banks should offer reasonable and acceptable exchange rates, and good services of low fees.

c. Capital for joint venture

- The banks had better take part only in projects that produce high performance and annual profit higher than the lending rate.
- Good investment projects may bring about a lot of customers who need banking services.

d. Capital for required reserve and deposits in other banking institutions

- As for local banks, deposits should be made with banks of high safety and interest rate.
- As for foreign banks, top priority must be given to banks with high interest rate because most of them ensure high security.
- Deposits with low-interest banks could be transferred to ones with higher rates if need be.
- As for the SBV, because of its low interest rate, the banks can ensure the required reserve only, or keep the deposit at a reasonable level that ensures the payment capacity.

e. Cash, gold and foreign exchange

- These are unproductive assets therefore the banks can only keep them at a reasonable level to ensure their solvency.
- It's rational to convert uncommon currencies to the hard ones because they are usually unproductive.

f. Fixed assets

These assets have high degrees of security but they are unproductive. They come from equity capital and are limited to the 50- percent ceiling of the equity capital. In addition, they help establish the banks' public image. Some measures to control the fixed assets are as follows:

- Purchase of fixed assets must aim at supporting banking services at the lowest expenses.

- Distribution and use of fixed assets must aim at making the best use of their functions and capacity.

- Fixed assets must be checked and repaired regularly in order to maintain their values.

g. Other receivables and assets

These are also unproductive assets and not under direct control of the bank, therefore they involve high degrees of risk. The banks had better keep them at the possibly lowest level and collect receivables as soon as possible. In addition, they should be converted into productive assets quickly to prevent losses.

2. Policy on deposits

a. Equity capital

- Increasing the equity capital by selling more shares to shareholders: To achieve this aim, the business performance must be improved in order to gain a profitability ratio that is higher than the average rate of interest.

- Increasing the working capital by increasing the retained profit.

b. Deposits in current accounts

- Diversifying services supplied to customers to encourage them to use more services besides opening current accounts.

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- Ensuring the bank's public image by carrying out transactions for customers quickly and timely.

- Providing customers with advice on necessary and useful services while giving priority to customers' interest.

- Ensuring the best services for customers.

c. Deposits in savings accounts

- The structure of deposits must be based on the bank's need for capital. After identifying this need, the bank can work out policies to mobilize short- and long-term savings in either foreign exchange or domestic currency.

- As for the deposit rate, realities show that the bank can not certainly attract large deposit by offering high interest rates because many savers pay more attention to security and public image of the bank. The bank can set its interest rate based on the average rate accepted by the market or rates offered by other banks.

- In fact, most customers fail to discern differences between banks. That is why the bank has to create a good public image with a view to making them feel sure when opening savings accounts.

d. Deposits from other banking institutions

These deposits come into being when other banking institutions want the bank to carry out some services they are not allowed to do, such as paying foreign suppliers, transferring money to customers in provinces where they have no branches, or trading foreign exchange. To attract such deposits, the bank should prove their trustworthiness and high quality of its services.

e. Loans from the SBV and other banks

This source of finance comes into being when the bank borrows money from the SBV and other banks. These loans usually involve high interest rate and short maturity.

The bank only uses this source of finance when meeting with temporary financial difficulties, and it should select loans with the lowest interest rate or, at most, with one that equals its lending rate. In addition, the banks should have agreements on some credit limit with other banks in order to secure quick loans when necessary.

f. Security deposits

These deposits are made to ensure solvency of customers. This source of finance is cheap because the bank need not pay interest for them. The bank can take the following measures to increase such deposits:

- In certain cases, the bank may pay some interest for such deposits in order to establish good relations with customers.

- Giving advice on, and offering, services relating to security deposits, such as paying utility service bills, overdrawing, and bank guaranteeing, etc.

g. Trust deposits

- Providing customers with various investment opportunities.

- Offering reasonable fees for investment management.

3. Structure of assets and capital

- Productive assets must account for 75% - 80% of total assets while risk assets (such as loans) represent some 60% or 65%.

- Assets that used for ensuring the bank's solvency account for 15% of the total assets.

- Fixed assets equal some 5% of the total assets.

The structure of sources of capital of a joint stock commercial bank must ensure reliable supply of capital and reasonable cost of capital. The structure of sources of capital could be as follows:

- Equity capital must equal some 10% of the working capital in order to ensure safety of banking operations. This percentage could be increased to 15%.

- Bank deposits for which the bank has to pay high interest can equal some 60% of total capital while deposits that cost low interest may equal some 30%.

4. Profitability management

a. Income

- Besides lending money – main source of income for banks – joint stock commercial banks can offer diverse forms of lending and adopt various policies on lending in order to limit risks and increase profit.

- When lending money, attention could be paid to consumption loans and term loans because they are high-profit and low-risk services if they are well managed.

- Commercial banks can offer more services, such as exchanging immigrant remittances, making payments and collecting debt for customers, transferring money, and supporting sale and purchase of real estate, etc. because these services bring about high profit with a low risk degree.

- Banks should try to increase income from banking services to some 30% of their total income.

b. Expenses

- Practicing thrift to increase profit and paying more attention to overheads and operating expenses.

- Cutting expenses on mobilization of sources of capital by increasing such interest-free or low-interest sources as deposits in current accounts, security deposits and trust deposits.

5. Liquid assets management

- Mechanisms for controlling and coordinating operations must be developed and improved regularly in departments that employ capital and ones that secure deposits in order to satisfy timely all needs for capital and avoid surplus of capital.

- Predicting customers' demand for capital and their repayments made to banks is an effective way to deal with shortage and surplus of funds and ensure the bank's solvency.

- Analyzing and estimating liquidity balance after a long period in order to work out an appropriate policy on the liquid assets management.

- Unpredictable needs for liquid assets can be satisfied by employing short-term loans from the monetary market and other assets while predictable ones can be satisfied by deposits from other banking institutions. This practice may ensure both solvency and profitability for liquid assets of the bank. ■


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