

TO DIVERSIFY VIETNAMESE COMMERCIAL BANKS' SERVICES IN PROCESS OF INTERNATIONAL INTEGRATION

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International integration is now a wave, showing an indispensable trend of the world economy. Vietnam's integration into the regional and international economies is indicated by important events including the participation in AFTA, signing of the Vietnam-U.S. trade pact and preparation for joining WTO. To implement commitments in the signed agreements with oncoming challenges and opportunities, the diversification of banking services is a decisive problem to the country's system of commercial banks.

1. SITUATION

Since its shift to the market economy in 1988, the Vietnam's banking system has made progress and soon become an important financial channel. To date, the sector has built a widespread network with various forms of ownership. By 2001, after the system of commercial banks was restructured, dissolved and incorporated, there were 6 state-owned banks, 39 joint stock banks, 4 joint venture banks and 26 foreign banks in Vietnam. The state banks held 50% of total capital mobilized, 55% of total credit and joint stock banks 29% and 27% respectively while foreign banks 16% and 23% respectively. Nevertheless, it is undeniable that local banks' financial capacity, banking technologies and products and services remain poor. They have not yet introduced new attractive products while their earnings from credit make up a high percentage, 70-80%. This shows commercial banks must renew their business and diversify their products in order to survive and grow in the current fierce competition.

1. Capital mobilization

The banks' capital mobilization, on the whole, has increased fast. The forms of attraction are diverse: current account, term deposits with three-month, six-month, nine-month and twelve-month periods and interest payment at the beginning or the

end of period or monthly. Banks also issue term bonds in VND or USD and at the same time launch sales promotion campaigns with high value gifts and awards to allure customers. Most of banks implement deposit insurance to secure customers' benefits and banks safety.

Recently, banks introduce new products like savings for education, welfare, spending, transport means, tourism. In fact, these are term saving deposits with attractive interest rates. In addition, clients may easily change their mode of deposits without saving books and use ATM to get money.

Nevertheless, the sector has not yet tapped fully capital potential in the economy, its mobilized capital is mainly of short term, thus not meeting all requirements for medium and long term funds. The banks have not yet created favorable conditions for depositors' money withdrawing. They find it hard to withdraw their money at the other place in addition to the office where they deposit money. The savings books, deposit certificates and valuable papers are

hardly used for payment, therefore reducing their liquidity on the market. Banks still wait customers but not actively organize promotion programs to sell their products.

2. Lending

The banks' lending activities, on the whole, have satisfied the economic capital demand. Banks have reformed their credit structure, focused their financing on key industries in accordance with planned targets, and increased step by step the proportion of long and medium term loans and loans for the non-state sector. They also give supports to small and medium-sized enterprises under diverse forms including credit in advance, import-export financing, discounting, financial leasing, co-financing, guaranteeing. Banks begin to give small loans to expand credit and avoid risks, meeting the ever-increasing market needs like loans for spending, student credit, tourism credit, loans for issuance and payment of credit cards, loans for home installment purchase, home repair, securities investment.

Table 1: SOME INDICATORS OF VIETNAMESE BANKS' PERFORMANCE FROM 1991 TO 2001 (VND bil.)

Year	Mobilization	Outstanding loans
1991	13,880	10,155
1992	16,520	16,520
1993	20,799	25,426
1994	27,843	38,072
1995	31,917	45,448
1996	46,332	82,806
1997	90,539	104,326
1998	115,651	124,709
1999	147,340	139,001
2000	191,542	173,770
2001	238,470	213,902

Source: State Bank of Vietnam's Annual Reports 1991-2001

Table 2: PERCENTAGE OF OVERDUE DEBTS OF COMMERCIAL BANKS 1991-2001

Year	1995	1996	1997	1998	1999	2000	2001
Overdue debt (%)	7.8	9.3	12.4	12	13.2	11.67	9.1

Source: Ngân Hàng Magazine and SBV's 2001 Report.

Nevertheless, the credit quality of some banks remains low, their proportion of overdue debts is rather high while the bank has to control its overdue debt not more than 5% according to international common practice. Most of banks have not yet applied the method of risk spreading by diversifying loan categories, their loans are mainly credit in advance while finance leasing, co-financing and discounting services are restricted. The overdraft has just been permitted since Feb 1, 2002, but in fact it is still not applied.

3. Investment

At present, domestic banks are using only simple forms such as capital contribution to form joint ventures and securities investment but the proportion is still low (from 3 to 5% while this figure is over 20% in other countries).

4. Intermediate services

Payment services: The banking sector's payment activities has experienced a lot of improvements, for example, the Government issued Decree 64/2001/NĐ/CP on payment services replacing Decree 91/CP dated November 25, 1994. Especially since May 2, 2002, banks have applied electronic payment, and until February 2003, 31 banks had been connected in this network. The bank's current payment services also reveals a lot of restrictions, entrusted payment makes up more than 80% of total payments, use of cheques remains modest, less than 5% of total payments and letters of credit are mostly not used domestically. The regulations on payment are inappropriate, the people feel unfamiliar with bank payment services and the procedures are cumbersome. In particular, payment documents cannot yet be transferred as international common practice. E-banking services are mainly search for information. As a result, electronic payment cannot be realized due to many obstacles caused by lack of modern and integrated infrastructure and detailed legal documents for information security.

International payment: Previously in the subsidy period, Vietcombank was the sole institution

to do this job. When shifting to the market system, banks are permitted to engage in this business, but this business is focused on such banks as state banks, Eximbank, Asia Commercial Bank, East Asia Bank, foreign banks. Vietcombank still hold the largest market share, 30% (in 2001). Most of them provide facilities in import-export payment and they take part in the SWIFT system with common payment modes like: documentary credit, letter of credit, documentary collection, discount for export documents...

Financial service: This service has been provided for the past two years since the Vietnam securities market was formed in July 2000. The amount of goods on this market remains modest, there are so far 19 kinds of securities of listed companies with total prescribed capital of VND878 billion; 10 securities companies, 91 organized investors and 33 foreign investors with 1,200 accounts. The total investment in securities accounts for only 0.3% of GDP while the people's dead money amounts to US\$6-8 billion, or 25% of GDP. This evidence indicates the market size is still small due to its embryonic stage and thus it has not yet accelerated financial services. Banks only undertake simple professions including: securities brokerage, securities issue and underwriting, securities management...

Table 3: Some indicators about the Vietnam securities market over the past two years

	July 2000	July 2002
Number of securities companies	2	10
Amount of listed securities	2	19
Amount of listed bonds	0	9

Forex trading: Most of banks trade in foreign exchange with local customers under such forms as: spot, forward, swap with a view to earning foreign currencies for import-export payment. Only Vietcombank, Eximbank, ACB,

EAB...take part in the international forex market.

The above facts reveal although local banks make great efforts to renew their products to attract clients, their capacity and professional skills stay at medium level as compared to other countries in the region. As a result, local banks are not really the customers' companion.

II. CAUSES

The legal system is not unified and perfected and many documents are overlapping. The central bank still make deep intervention in activities of commercial banks and has not yet built a fair and healthy business environment for all kinds of banks.

Banks have not yet devised appropriate policies on customer service, passively waiting for clients and having poor marketing plans.

The banks' equity capital is not large. The Bank for Industry and Commerce, Bank for Investment and Development, Vietcombank own a prescribed capital of VND1,100 billion; while the Bank for Agriculture and Rural Development VND2,270 billion and joint stock banks VND20-250 billion. Their proportion of equity capital represents only 3-4% of total working capital while this figure is 8-10% on average in the world. As compared to banks in regional countries like Thailand, Singapore, South Korea...Vietnamese banks' prescribed capital is equal to 20-30%. This shows the country's financial potential remains small, not satisfying requirements of economic development in the integration stage. Total credit for the economy does not exceed 35% of GDP while this figure must be more than 60% in regional countries.

The sector has not yet carried out adequate investment in banking payment technology, thus not alluring customers.

Banks have not yet made the best use of available advantages of infrastructure, network, and human resources.

The financial market is not flexible, the amount of intermediary financial institutions is small and the number of commodities on the securities market remains restricted, thus not speeding up its growth.

The Vietnamese people's income is still low. They have not yet got used to dealing with banks, in addition the bank's payment procedure is still cumbersome, so the public is reluctant to come there.

III. MEASURES TO DIVERSIFY BANKING SERVICES

Vietnam has to undertake its commitments on financial services in the Vietnam-U.S. Trade Pact (Chapter III and Annexes G and F). The U.S. enterprises are permitted to provide financial services as follows:

- Acceptance of deposits and other repayable funds from the public;
- Lending of all types, including consumer credit, mortgage credit, factoring and financing of commercial transaction;
- Financial leasing;
- All payment and money transmission services, including credit, charge and debit cards, travellers cheques and bankers drafts;
- Guarantees and commitments;
- Trading for own account or for account of customers, whether on an exchange, in an over-the-counter market or otherwise, the following:
 - + money market instruments (including cheques, bills, certificates of deposits);
 - + foreign exchange;
 - + derivative products including, but not limited to, futures and options;
 - + exchange rate and interest rate instruments, including products such as swaps, forward rate agreements;
 - + transferable securities;
 - + other negotiable instruments and financial assets, including bullion.
- Participation in issues of all kinds of securities, including underwriting and placement as agent (whether publicly or privately) and provision of services related to such issues;
- Money broking;

- Asset management, such as cash or portfolio management, all forms of collective investment management, pension fund management, custodial, depository and trust services;

- Settlement and clearing services for financial assets, including securities, derivative products, and other negotiable instruments;

- Provision and transfer of financial information, and financial data processing and related software by suppliers of other financial services;

- Advisory, intermediation and other auxiliary financial services on all the activities listed above, including credit reference and analysis, investment and portfolio research and advice, advice on acquisitions and on corporate restructuring and strategy.

According to basic commitments on banking services in the Vietnam-U.S. Trade Pact, American banks will enter joint venture with Vietnamese partners to investigate the market and step by step expand their business. In the next 8 years, Vietnam has to remove limitations on local currency trading of American banks as well as foreign banks. From now to 2010, it will abolish the provisions on banning American banks from establishing subsidiary banks and 100% U.S.-owned finance leasing companies in Vietnam. The above facts force local banks as well as the Government to take positive measures in the integration process as follows:

First, to build a road map in accordance with the integration process of regional countries, modernize and innovate banking technologies, and accelerate the application of information technology to banking services.

Second, to continue expanding, perfecting and improving the quality of traditional services, diversify forms of capital mobilization, extend the network of interbank payment, provide e-banking, home banking services, credit card services, ATM services, develop the profession of discounting, overdraft, co-financing, syndicate loans, financing securities investment, promoting customers services, marketing and other services like taxation payment and insurance...

Third, to perfect legal framework with the aim to make the business environment convenient and safe for banks in accordance with international common practice.

Fourth, to strengthen the banking system by increasing the bank's equity capital up to international standard with a view to sharpening its competitive edge.

-Regarding state-owned banks, the Government should increase their prescribed capital by issuing bonds and using foreign capital sources.

-Regarding joint stock banks, they are encouraged to list their securities on the securities market to mobilize capital as well as affirm their position on the market.

Fifth, to continue restructuring the banking system, definitely dissolve or incorporate joint stock banks under special control and positively settle and recover overdue debts with the aim to make banks' activities healthy.

Sixth, to build a fair playground for local banks regardless of forms of ownership, respect the bank's trade goals, and separate policy function from trading function with the aim to liberalize the bank's activities.

Seventh, to perfect and improve professional skills of the bank staff up to international standard and build risk-hedging instruments.

Eighth, to soon promulgate the Ordinance on fighting money laundering with the aim to secure foreign currency flows and preventing illegal money transfer abroad and international criminals in the banking sector.

In short, to perfect and diversify banking services is an important orientation in the integration process. It will open up opportunities and potentials for exchanging internationally, receiving foreign capital flows and technologies, step by step strengthening the country's banking system on the international financial market. It is also a dynamic for the national economic development. ■



Photo by Nguyễn Ngọc Đạo