

Development Trends of Vietnamese Commercial Joint Stock Banks in the Process of International Economic Integration

by TRẦN LÊ MINH TÚ

The world economic integration has become the era's inevitable trend and produced strong effects on a lot of fields over the past 20 years. In such a situation, Vietnam has positively taken part in the international integration process such as joining the ASEAN Free Trade Area (AFTA); signing the Vietnam-US bilateral trade agreement; becoming the WTO's 150th member; participating in other important economic organizations as well as bilateral trade pacts. In respect to macroeconomic level, the door opening has brought opportunities and challenges.

In the common trend of the economy, Vietnamese commercial banks face more opportunities of resources, technologies, and markets..., on the other hand, they must encounter risks and challenges when the current capital of Vietnamese commercial banks remains low; managerial skill is weak; standards of auditing and accounting incompatible with international common practice; technological level backward, and banking services meager, etc. These challenges will be increasingly serious when Vietnam speeds up its process of international integration and implements its full commitments. This requires Vietnam's commercial banks to take the initiative in understanding, preparing their own strategy and getting ready for competition in the trend of globalization.

As a part of the system of commercial banks, Vietnam's joint stock commercial banks are now holding a small market share and in the early development stage to perfection and evolution. When the country's full commitments must be undertaken, financial institutions and foreign banks will rush to Vietnam, put their competition pressure on local joint stock banks and thus make them easily vulnerable.

Joint stock commercial banks are growing in a business environment which is ever-changing and increasingly competitive. The factor of supply and demand in the banking area will change into the trend of rising supply and special demand. In the time to come, Vietnamese economy continues to record significant achievements in GDP growth and macro-economic stability. The change in population structure, urbanization speed, industrial parks expansion, all leads to the increasing number of businesses and individuals who need banking services. According to VinaCapital's estimation, only about 5% of 83 million Vietnamese people open bank accounts, so the demand for banking services remains

in its embryonic stage. The number of overseas Vietnamese returning home and the activities of money transfer and business transactions are now soaring sharply. In addition, busy activities of foreign trade and investment will generate high demand for banking services. The competition pressure will be heavier along with the banking sector's open policies. The market will experience international institutions with various forms of ownership including foreign banks enjoying fair treatment as local banks. According to Vietnam's commitments when joining the WTO, foreign banks are allowed to operate in Vietnam as of April 1, 2007. They still cannot open transaction offices outside branches and the amount of Vietnamese đồng in deposits is also limited. However, these limitations will be removed from January 1, 2011.

The system of Vietnamese joint stock commercial banks has developed fast because the economy grows firmly and the public confidence in banks is improved. Nevertheless, their history of operation is still short, from 10 to 17 years and their starting point low. In Vietnam, no joint stock banks can be compared to the regional and the world's partners. Even in the country, the market share of joint stock commercial banks accounts for less than 20% only. Most of Vietnam's banking market shares belong to four state-owned commercial banks, or 70%. The rest is allocated to 34 joint stock commercial banks, 35 foreign bank branches and 5 joint venture banks.

There are many factors building the public trust in banks. According to evaluation of customers in a research table, a powerful bank's name is a decisive factor to the customer's using services and depositing money.

The market evidence shows a lot of people still deposit money in state-owned commercial banks although these banks' deposit interest rates are lower than those of joint stock banks. The following factors affecting the customer's behavior in using banking services are measured as follows:

Descriptive Statistics

	N	Min.	Max.	Mean	Std. Deviation
Importance of the banks' trade name and reputation to the use of banking services	100	1.00	5.00	4.6600	0.81921
Valid N (listwise)	100				

Source: The author's questionnaire of 100 customers processed by SPSS (*)

- 1.The bank's name and reputation: 4.66/5
- 2.Service attitude: 4.18/5
- 3.Process of transaction: 4.03/5
- 4.Quality of services and products: 3.78/5
- 5.Professional skill of employees: 3.70/5
- 6.Facilities: 3.57/5

Source: The author's questionnaire of 100 customers processed by SPSS (*)

Also in the research, customers also assess the safety of deposits in joint stock commercial banks at 3.5 points in the five-point scale. Obviously, customers have not fully trusted in the system of joint stock commercial banks.

The survey results show customers consider the service quality less important than the implemen-

	N	Min.	Max.	Mean	Std. Deviation
Evaluation of safety of deposits in joint stock banks	100	1.00	5.00	3.5000	1.21023
Valid N (listwise)	100				

Source: The author's questionnaire of 100 customers processed by SPSS (*)

tation process and the employees' service attitude. This is due to monotonous and meager types of banking products, so the customers ignore the importance of this factor. Nevertheless, the banking technologies and facilities such as Internet-based payment and phone banking are highly expected and appreciated. As many as 76% of respondents say those banks providing modern hi-tech products will have good effects on the customer's decision of using services.

Based on customers' evaluations and characteristics of the current network of joint stock commer-

Banking technologies' effects on decision of banking services

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Full effects	2	2.0	2.0	2.0
	No effect	4	4.0	4.0	6.0
	Normal effect	8	8.0	8.0	14.0
	Some effect	18	18.0	18.0	32.0
	Strong effect	68	68.0	68.0	100.0
	Total	100	100.0	100.0	

Source: The author's questionnaire of 100 customers processed by SPSS (*)

cial banks, some suggestions are made to enhance the strength and competitiveness of Vietnamese joint stock banks as follows:

1. Building large-sized joint stock commercial banks

8 EDR

The current business environment will see changes due to increasing pressure of competition; therefore, newly-founded banks must be really powerful with huge capital and utilize modern technologies in the first place. At present, the State Bank of Vietnam also rules that new-founded banks must have a minimum charter capital of VND1,000 billion and three shareholders as organizations whose charter capital is more than VND500 billion. This is aimed to establish highly competitive banks just at the time of foundation.

2. Enhancing the financial position and consolidating banks to build powerful ones

Vietnam's joint stock commercial banks are operating in a good business climate due to stable macro-economic factors; credit growth and capital mobilization reaching 25-30%, tripling GDP growth rate. Therefore, their business performance is now promising. The situation will change when new banks are established; state-owned commercial banks go public, foreign financial institutions make appearance in the market and restrictions are removed steadily and fully soon. Financially poor banks without reputation will find it very hard to survive in the market. Small banks must mobilize funds with high interest rates; their low credit-rating borrowers cause more risks while the competition is pressing and the revenues from services stay low.

3. Modernizing banking technologies and developing banking products based on modern technologies

As mentioned above, products of Vietnamese banks as well as joint stock commercial banks do not contain hi-tech components or have been just developed in the first stage. Modern technologies will make breakthrough steps for product development, diversify them and promote utilities for customers. These products can be developed on Internet basis such as knowing the account balance and payment, bill payment, meeting customers' requests such as opening L/C, rectifying L/C and managing funds. These services are now provided by foreign banks

4. Establishing the system of customer information data

Foreign banks have a long history of financial operation, so their management instruments are standardized and well run. The information technology (IT) system and customer management of Vietnam's joint stock banks remains very poor, thus causing wastes and losses in customer evaluation and management. The customers' information is not stored systematically, which badly affect decisions on assessing and lending. Foreign banks such as HSBC, Standard Chartered Bank have the man-

agement system which is regularly updated and stored, so their customer assessment and investigation is undertaken orderly and systematically. The establishment of customer information system at joint stock banks is essential to reduce time and costs for officials in analyzing and managing customers and finally make fast and exact decisions on lending. This task requires a management program, strong facilities, and the bank's determination.

5. Enhancing professional skills of the management board and executive board

To enhance professional skills of the Management Board and the Executive Board is always necessary to promote the business's efficiency. Nevertheless, the survey shows there are many non-professional factors affecting on the decision to become a member of the Management Board, so a lot of members are not highly qualified. Some banks have many members of the Management Board holding several positions at the same time and they do not obtain specialized knowledge about finance. Obviously, these members cannot have conditions to focus their efforts on research for the bank's development. The Management Board has the right to select and approve chief executives; however, all of them have enough necessary qualifications. Banking business is a conditional and sensitive area because it affects the socio-economic stability. In the current harsh competition and high demand for CEOs in the financial and banking area, joint stock commercial banks should know how to attract high skilled staff by reasonable salaries and preferred stocks as well as good working conditions.

6. Reforming the management machinery and developing the human resources

Management reformation must be concentrated on customers' satisfaction. Among the resources for the bank success such as manpower, facilities, capital, technologies, etc., manpower plays the most important role because the whole system's operation

depends on their human capital and professional skill. The bank should give refresher courses regularly to its employees and managers. Its staff is also encouraged for self-training with suitable support policies and financial incentives. More importantly, the bank must be able to recruit competent employees and its policies should be transparent and public.

7. Expanding a network of branches

The expansion of branch network is also a factor to promote the bank's name and reputation. According to customer's comments, the branches of joint stock commercial banks are not adequate, so they need to expand their distribution channels. On the other hand, the fast rise in charter capital requires the corresponding growth of the bank's activities. In addition to domestic branches, joint stock commercial banks should open branches in foreign countries with a view to facilitating and improving quality in money transfer and international payment. The banks' strategic partners can help them expand these agent relations.

8. Promoting cooperation and selling shares to strategic partners, especially to foreign banks

The partnership and association with well-known organizations will boost up the reputation of joint stock commercial banks and thus build customers' confidence.

Vietnamese banks hardly stretch out to foreign markets unless there are cooperation and assistance from foreign banks in the network of distribution and technological transfer.

The association with foreign banks will bring a lot of benefits because local banks will take advantage of their global networks. This is very useful to the bank's foreign trade payment and money transfer. Besides, the cooperation with international financial institutions will assist joint stock commercial banks in learning experience, transferring technologies and training staff. As large financial institutions with long history of banking business, foreign banks have much experience in banking development and thus give beneficial advices and added values to local banks. ■

REFERENCES

- 1.(*): Extracted from the author's research (2007) "Development of Vietnam's Joint Stock Commercial Banks in the Process of Globalization and International Economic Integration"- the MA thesis- HCMC University of Economics.
- 2.Relevant documents about Vietnam's accession to the WTO.
- 3.Nguyễn Đại Lai (2006), "Global Challenges to the Vietnam Banking Sector in the Current Condition", The State Bank of Vietnam's website.

