

Before and some years after the introduction of *đổi mới* policy, there was no commercial bank in Vietnam, but during the last five years, 54 joint stock commercial banks (33 in cities and 21 in rural areas) and two joint stock finance companies (referred commonly as joint stock credit organizations - JSCOs - hereafter) have come into being. Hardly a nation obtains such a development and this system of commercial banks is considered as the youngest one in the world, whereas the amount of state-run commercial banks (which was four) made no increase.

Commercial banks operate

FOR A BETTER SYSTEM OF COMMERCIAL BANKS IN VIETNAM

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mainly in Hà Nội, HCMC and some big cities (Hải Phòng, Đà Nẵng, Vũng Tàu, Cần Thơ). In HCMC, there are 18 commercial banks with 36 branches, and five branches of banks from other provinces. In Hà Nội, there are six commercial banks, and 12 branches of banks from HCMC, Hải Phòng, Nghệ An and Vũng Tàu.

At first, most shares of commercial banks were bought by state companies, but lately many private and limited companies and individuals became shareholders. This reflects the policy to develop a multi-sector economy adopted by the Government and the Party in banking business. In other words, joint stock concerns represent a larger percentage in the banking business in comparison with other businesses.

In the beginning, the average legal capital of a rural commercial bank was around VNĐ1.6 billion, and about VNĐ30 billion for a municipal joint stock commercial bank. But up to late 1996, the average capital of a municipal commercial bank reached VNĐ60 billion. Some banks have increased their legal capital to some hundreds of billions, such as ACB: 300 billion. VP Bank: 190 billion, Maritime Bank: 120 billion, Eximbank: 250 billion, etc.

Total assets (including legal capital, reserves, etc) of all JSCOs increased from VNĐ630 billion in 1993, to 1,009 billion in 1994, 1,235 billion in 1995 and 1,637 billion in mid-1996, representing 18% of total assets of the banking system. This number will reach 2,000 billion by the end of 1996 according to estimation. This fact reflects the development in size of JSCOs. Recently, many commercial banks have tried to issue shares and bonds with a view to increasing their working

capital. Some banks, such as ACB and VP Bank, were allowed to sell their shares to foreigners.

In the past, state-run commercial banks enjoyed a monopoly in banking service, but at present, the birth of a system of commercial banks has created a better environment for competition in banking business and forced state commercial banks to innovate their activities in order to protect their market share.

With the motto "turn borrowings to loans", JSCOs have actively found out different ways to attract dead money from the public: ACB offered lottery tickets to customers who deposited foreign exchange in their savings accounts, Techcombank paid interest for every day money deposited in accounts, etc. Deposit in SCOs increased from VND2,331 billion in 1993 to 4,151 billion in 1994, 7,718 billion in 1995, and 1,053 billion in mid-1996, representing 14.6% of total deposit in the banking system. It's estimated that by the end of 1996, this number will reach VND12,000 billion. Such a twofold increase shows that the system of JSCOs has earned the prestige in the public.

Another development is that many commercial banks have been able to open branches in big cities: Maritime Bank has seven branches in Saigon, Thương Tín has six branches all over the country. Certain banks have thought of opening branches in foreign countries.

Together with the mobilization of capital, the supply of loans was also developed. Total debit balance of JSCOs increased from VND2,586 billion in 1993 to 3,857 billion in 1994, 6,419 billion in 1995 and 1,485 billion in mid-1996, representing 13% of total debit balance of the banking system. This number was estimated at VND8,000 billion at the end of 1996. Main debtors of SCOs include non-state concerns (private companies, family businesses and individuals). Many commercial banks have taken measures to supply loans and help their debtors overcome difficulties in doing business: AP Bank offered door-to-door service, Maritime Bank supplied more long- and medium-term loans to projects building infrastructure (such as Lăng Trung-Hòa Lạc superhighway, National Route 14, etc.), some HCMC-based commercial banks supplied loans to help customers buy houses. Besides traditional banking services, many banks were offering new ones (financial

lease, discounting, co-financing, etc.)

The system of commercial banks tends to be sensitive to the market mechanism and new developments of international banking business. Some 50% of municipal banks have engaged in international transaction. Such banks as Eximbank, VP Bank, ACB, Maritime Bank... have established relations with hundreds of foreign banks. Many foreign credit cards (such as Master Card) have been introduced in Vietnam.

All municipal commercial banks have offered transfer service, especially domestic transfer, between Hà Nội and HCMC for example. Billions of đồngs were transferred everyday by commercial banks. Due to various services offered, many banks have attracted large sums of deposit and increased their profit. Up to mid-1996, income from bank charges of ten leading commercial banks reached VND67 billion, representing 9% of total income of the system. This percentage was estimated at over 10% by the year's end.

The army of banking personnel has been improved both qualitatively and quantitatively. All banks have their own boards of directors operating according to decisions made by the meeting of shareholders and under the supervision of boards of inspectors. The chairperson and members of the board usually have enough knowledge for their business. Most directors general are skilled and experienced persons. Many of them are former high-ranking officials of the state banks. Particularly, the personnel of commercial banks are well-selected and have knowledge of foreign languages, informatics, managerial and

professional skills. This is also a strong point in comparison with state-run commercial banks. Material and spiritual incentives, especially salary which is two or three times higher than what paid by state-run banks, have helped to attract skilled workers and encourage the personnel to improve their skills.

The use of computers in all tasks: keeping books, transacting, transferring, managing, processing information, making reports, etc. is also one of strong points of joint stock commercial banks. Such banks as Maritime Bank, Eximbank... have joined the SWIFT system in order to deal with international transactions.

Although they aren't well-established, many commercial banks have made profit from their first years of operation. The gross income of all JSCOs increased from VND83 billion in 1993 to 192 billion in 1994, 325 billion in 1995 and up to 154 billion in the first months of 1996, representing 22% of the total gross income of the banking system. Some banks, such as VP Bank and ACB, have had their books and records examined by international auditing companies with a view to becoming more trustworthy in the eyes of the public and especially, of foreign shareholders. That is why many foreign groups have bought shares issued by these banks at a price much higher than their face value. Some banks in 1995 could pay a dividend of over 20% and over 10% in 1996.

The birth and growth of the system of JSCOs has helped to develop the banking and finance business in Vietnam, contributed to the eco-



conomic growth and inflation control, and created a better environment for competition in banking business. So we can say that the system of JSCOs is good for the Vietnam economy. However, many problems arising from the financial situation of this system need to be studied.

The first one is overdue debts, or more exactly, the quality of credit supplied which is considered as a criterion for estimating the business performance of a commercial bank. A high percentage of overdue debt could weaken the bank's solvency and a large amount of bad debts will make a bank insolvent.

Most of commercial banks didn't agree on the method of estimating taken by the State Bank, because many debts considered as bad ones by the State Bank could be collected one month or two later. Or in some cases, the payment clause hasn't been made clear when loans were supplied while customers were doing their business well... At the same time, commercial banks didn't agree with the State Bank's critique saying that "commercial banks kept on supplying loans to customers who failed to repay debts on time", because "to use loans to help debtors" is also a necessary measure to help customers deal with difficulties. Anyway, the amount of overdue debts informed by the State Bank inspectors and reports of commercial banks is also an alarming fact. The percentage of overdue debt of municipal commercial banks has reached some 10%. In a large bank in HCMC, this percentage has multiplied. More dangerously, total bad debts suffered by the system of commercial banks had amounted to billions. In an HCMC-based bank, this sum was VNĐ6.4 billion. Generally, the percentage of bad debts in commercial banks was rather high. This situation, together with fraudulence and deceit in banking business have stimulated a lot of earnest worry in both local and foreign opinion. Main causes of this situation are: many JSCOs violated banking regulations; they were deceived by customers or their customers were out of luck and became defaulters.

Some credit organizations didn't observe regulations on bank guarantee service and had to suffer bad debts: they had to repay debts to foreign creditors but their debtors couldn't repay them. Such debts became doubtful or bad ones. Some commercial banks have also made a high charge on customers for this service and made illicit gain.

The Ordinance on Statistics and Accounting hasn't been observed strictly by some JSCOs: many loans weren't entered in proper accounts for loans supplied, but in accounts for debt, immigrant remittance or guarantee... So total bad debts of most commercial banks were in fact larger than what were stated in their balance sheet. A lot of income and expense were made irrationally and not in accordance with regulations. The use of some funds and reserves wasn't correct (to use contingency reserve or depreciation reserve to pay corporation tax for example). Many debits (capital expenditure for example) didn't have their corresponding credits. Many JSCOs didn't record guarantee payment or charge in their books.

According to regulations, all transactions in foreign exchange (supplying loans or selling foreign currencies) could be made only to foreign customers but in the past years, many JSCOs have supplied foreign exchange to local customers illegally and in some cases they had to suffer unnecessary losses.

Some commercial banks, after three or four years of operation, haven't been able to develop their business and had to think of the possibility of a merger. At the end of 1996, the State Bank had to allow Đồng Tháp Commercial Bank to merge with Phương Nam Commercial Bank (HCMC), and Viễn Đông Commercial Bank (An Giang) with Nam Đô Commercial Bank (HCMC). This tendency will certainly repeat itself in the coming years.

Causes of above-mentioned situations are:

- Many JSCOs didn't observe strictly banking regulations and laws, certain JSCOs even tried to exploit cracks in laws for their own advantage. Internal inspection and control of each bank was negligent, irregular, lenient and tardy. The board of inspectors, in many banks, existed in name only.

- The managerial skills of the management weren't high enough to deal with new developments of banking business. Boards of directors and directorates of many banks lacked solidarity or were affected by nepotism. Many senior managers lacked experience and knowledge of finance and banking business, some of them were of old age and reluctant to take risks while many others were too adventurous.

- The law system was imperfect and has many flaws. The task of supervising and handling violations

carried out by the State Bank was irregular and lenient with the result that the control of the Government over commercial banks became loose.

Impartially speaking, the burden of bad debts suffered by state-run commercial banks was also alarming. Many branches of foreign banks and joint venture banks also violated regulations of exchange control. However, these problems were more serious in JSCOs. The overall measure is to perfect the law system and improve the role of the State Bank and the board of inspectors in each bank.

JSCOs are established by their shareholders who are mainly private persons. These persons, through the board of directors, will control strictly all expenses and they always want to practise economy. This is one of their strong points in comparison with state-run concerns. Flaws and defects in JSCOs are inevitable, especially when they have just come into operation recently and our legal and economic environment is at its first stage of development.

However, the size of commercial banks in Vietnam is still small. The biggest commercial bank in Vietnam could only accumulate a legal capital of some VNĐ300 billion, or US\$25 million. The average legal capital of a commercial bank in our country varies from VNĐ60 to 100 billion, or from US\$5 to 9 million, equivalent to 30% - 50% of legal capital of a branch of foreign bank in Vietnam. Many commercial banks met with difficulty in increasing their legal capital and their customers are mainly private and limited companies and private persons. So if there is no measure to increase their legal capital in order to expand their businesses, the market share of Vietnamese commercial banks will certainly become smaller because they are in competition with 23 branches of foreign banks, four joint venture banks and two finance companies.

In fact, the number of commercial banks in Vietnam is large, but the system isn't strong and firm enough. An inevitable tendency is that some banks will develop strongly and fast whereas some others will be swallowed. At the level of macro economic management, we had better recognize this tendency but we must see to it that everything will take place lawfully.