



# ON COOPERATION AND COMPETITION BETWEEN VIETNAMESE COMMERCIAL BANKS

by Dr. NGUYỄN ĐẮC HƯNG

After the State Bank Law and Banking Institutions Law came into effect, subordinate legislation was also made by various bodies. Among law documents issued in 1999 were Decree 43/1999/ ND-CP on the government investment in development projects; Decree 89/1999/ ND-CP on deposit insurance; Decree 164/1999 ND-CP on management of balance of payments; Decree 165/1999/ ND-CP on transaction insurance and Decree 106/1999/ ND-CP on financial requirements to banking institutions. This means that the legal infrastructure for operation of banking institutions is becoming more perfect and intervention from the State Bank, ministries and local governments in the banking activity is limited. In such conditions, the competition between commercial banks becomes keener and it also leads to cooperation between them. In other words, competition and cooperation is inevitable under the market mechanism.

## 1. Interest rate war

In 1999, the State Bank of Vietnam (SBV) adjusted the interest rate five times, four of which were decisions to lower the interest rate. When the economy is in recession, profit-making companies and good investment projects become hard to find, commercial banks should compete with one another for customers. In Hưng Yên, the Hưng Yên Garment Company has made good profit by doing subcontracts for foreign companies and has been one of traditional customers of the bank D. To secure enough capital for its business, the company decided to borrow VND2 billion more from the bank C. at the interest rate of 0.95% a month (the rate fixed by the SBV and also offered by the bank D). Learning of this decision, the bank D. offered an interest rate of 0.87% per month and thus persuading the company into canceling the contract with the bank C.

In Hà Nội, a joint stock bank was preparing a VND50-billion loan at an interest rate of 1% for the Vietnam Tea Corporation, a state-run

commercial bank offered an interest rate of 0.95% and won this customer. Similarly, a state-run commercial bank lost the Northern Food Corporation, one of its important customers, to another state commercial bank because of a lower interest rate.

In HCMC, many companies with good track records are usually offered loans of favorable interest rates, from 3% to 5% lower than the ceiling rate fixed by the SBV. The rate offered to important export companies is even 12% lower than the ceiling rate.

In this interest rate war, big commercial banks, especially state-run ones, that have abundant capital, many branches, support from the State and enormous deposits from state corporations could gain an advantage over joint stock banks (or privately-run banks) because they have no shareholders to pay dividend. At a workshop on the bank interest held by the Association of Banks in Hà Nội, a representative from a state commercial bank declared his bank was ready to lower

the lending rate but he couldn't answer when asked how his bank's performance was. Small joint stock banks that have only a few branches and have to bear responsibility for the performance before shareholders have to see their customers go to other banks for softer loans. Generally, the competition has led to lower lending rates and when the SBV decides to lower the ceiling rate, it is usually regarded as incompetent because it only follows in commercial banks' footsteps.

Banks also competed for deposits. Their targets are companies that hold big current accounts because they have to pay only some nominal interest on these accounts and spend almost nothing in running them. In a transaction office of a state commercial bank, the outstanding loan amounted only to VND250 billion while its deposit rose to VND2,500 billion and 70% of this amount was held in current accounts by state companies. Another state commercial bank, on Dec. 31, 1998 had to work until 11PM because a state insurance organization wanted to deposit tens of billion đồngs. Many other state commercial banks also keep such enormous deposits.

According to the Banking Institutions Law and other current regulations, a customer can do business with many banks and he has the right to select, and demand, the best service. That is why all banks want to win in this competition: they tried their best to attract the customers and refused to disclose information about their customers. As a result, a company can get big loan from different banks while the banking risk information service isn't much effective. This situation forces banks to cooperate with one another, especially in agreeing on a common lending rate. The Association of Banks has tried to achieve this aim by holding many conferences on the bank interest and save banks from negative effects of the unfair competition.

## 2. Diversification of banking services

Besides buying government bonds at a discount, commercial banks have offered a wider range of services.

On Nov. 26, 1999, the State Securities Committee granted licenses to two brokerage firms: BSC and BVSC. Many commercial banks are preparing to form their own brokerage firms. Some insurance joint ventures formed by commercial banks and for-

ign or local insurance companies are about to come into operation.

The HCMC Housing Joint Stock Bank, Hà Nội Housing Bank, and Asia Commercial Bank have offered real estate brokerage services. In the first half of December 1999, the real estate center run by the Asia Commercial Bank held a fair trading in houses whose prices were under 100 taels.

The Vietnam Bank for Industry and Commerce has also established a mortgaged assets center. The Saigon Commercial Credit Bank opened its Center for Real Estate and Investment Consultancy in November 1999. This Center also offered properties foreclosed by the bank as allowed by law. This is a measure taken by banks to retrieve loan repayments.

## 3. Modernization of banking facilities

In this field, all banks tried to develop the electronic banking service: the Vietnam Bank for Investment and Development, Bút Sơn Cement Company and Tân Sơn Nhất Airport have had their computers networked while the Hải Dương Bank for Industry and Commerce has been electronically linked with Hoàng Thạch Cement Company and Ford Assembling Factory. However, the Bank for Foreign Trade of Vietnam (VCB) is considered as the most successful in this field. The VCB cooperates with the Vietnam Oil Corporation (VOC) to build a networked computer system by which it controls and regulates flows of cash between subsidiaries of VOC, thereby reducing bank overdraft, loans and charge. All VOC subsidiaries need not pay deposits when opening L/Cs and can enjoy preferential bank charge and interest rate. All money transfers take only one day, instead of 3-7 days as before, to be finished. The VOC can keep a close watch on its financial situation to make decisions when necessary.

The electronic banking service proves important to all corporations in Vietnam and the VCB has made plans to introduce this service to other corporations in electricity, mining, footwear, cement, steel, telecommunications, aviation and clothing industries. This service is also a precondition for developing e-commerce in Vietnam.

## 4. Co-financing

Many commercial banks also cooperate in financing various projects. In Daklak, the supplier of some 80%

of coffee for export, banks of all kinds have opened their branches here and compete with one another for contracts with coffee export companies. To deal with unfair competition, the SBV Daklak Branch organized an association of bank branches in Daklak in 1997 in order to reach agreements about bank interest rates, exchange of information about customers and shares of branches in each co-financing project. This association has produced good results since.

In September 1999, eight commercial banks (four private and four state-run ones) agreed on a co-financing project for the Phú Mỹ 2.1 thermal power plant of the Vietnam Electricity. In October 1999, four state commercial banks cooperated to lend US\$100 million to the South Côn Sơn Natural Gas Project of the VOC. Many similar co-financing projects have been carried out by commercial banks all over the country.

## 5. Forming branches in developing areas

In August 1999, the Korean Exchange Bank, one of the biggest in South Korea, opened its branch in Hà Nội while the Chase Manhattan Bank is about to open a branch in HCMC. This situation means that the competition between banks will become fiercer.

In this condition, local commercial banks have tried to become more competitive. The VCB opened branches in Tân Thuận EPZ and Bình Tây in 1999 and prepares to open more branches in Bình Dương and Quảng Ngãi. The Bank for Industry and Commerce has opened branches in Bình Phước, Daklak and Gia Lai. Joint stock banks meet with more difficulties in opening their branches because of poor financial strength: only the Đồng Á Joint Stock Bank could open a branch in Buôn Mê Thuột and the Military Joint Stock Bank has a branch in Hải Phòng.

To open branches in developing areas is a reasonable way to develop business but it is also a challenge to local banks.

Generally, both cooperation and competition work to advantage of big banks, especially state-run ones. In this situation, the role of the Association of Banks becomes more important when the SBV couldn't intervene too much in the business of banking institutions. We hope that cooperation and fair competition between banks will help the banking system develop well in the future.